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ABSTRACT

Proceedings of the 1981 University of Arizona conference on responses to fiscal stress in higher education are presented. Topics include the impact of the federal government on higher education, state and institutional responses to new federal policies, developing responses to fiscal stress, alternate perspectives on fiscal stress, and tactical responses to fiscal stress. Papers and authors include the following: "Reagan Administration Policy Statement on Higher Education Finance" (Gary Jones); "State Responses to New Federal Policies" (Clyde R. Ingle); "Institutional Responses to New Federal Policies" (E. W. Doty); "The SUNY-Albany Experience" (Robert C. Shirley); "The Concept of Short-Run Decision Making" (Lyman A. Glenny); "The Idaho Experience" (David L. McKinney); "Responses to Fiscal Stress: Contrasting Higher Education and the Private Sector" (Kim S. Cameron); "On the Uses of Adversity in Higher Education" (Aaron Wildavsky); "A Changing Environment for Students and Families" (Melvin D. Orwig and Robert J. Rustad); "Capital Renewal in the 1980's: A State Perspective" (Brenda N. Albright); "Campus Renewal in the 1980's: The New Voyage of the Beagle" (Clinton N. Hewitt); "Tuition Pricing Policies and Their Effect on Institutions: Revenues, Students and Mission" (William Hyde); "Legal and Political Aspects of Program Closure" (Stephen R. Hample); "Coping with the Dynamic Duo of the 1980's" (Joseph Cox); "Retrenchment: Faculty and Staff Policies" (C. Keith Groty); and "Financing Community College Missions in an Era of Scarce Resources" (Richard C. Richardson, Jr.). Abstracts of related research papers, including practitioners' and researchers' award papers by Stephen Campbell, Frederick M. Biedenweg and Robert E. Hutson, and Raymond L. Siren, are included. (SW)

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RESPONSES TO FISCAL STRESS
IN HIGHER EDUCATION

Edited by Robert A. Wilson

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FOREWORD

The University of Arizona's seventh national conference on the financing of higher education assumed a new dimension in 1981 when for the first time it became international in character with participants from Mexico as well as every section of the U.S.

Annually this meeting brings together from the postsecondary finance enterprise researchers, recognized scholars, institutional finance officers, state finance officers, finance policy analysts, legislative leaders, national agency personnel, federal officials, and graduate students. This broad representation is made possible by the generous support accorded the University's Center for the Study of Higher Education by the State Higher Education Finance Officers, the Education Commission of the States, the National Association of College and University Business Officers, and the National Center for Higher Education Management Systems.

The subject for the 1981 conference was "Responses to Fiscal Stress in Higher Education." In giving well-rounded consideration to this very current problem the conference heard discussions of the federal administration's philosophy and goals for the financing of higher education, the impact of such policies at state and institutional levels, the trends of state financing policies, some principles involved in responding to reduced resources, specific counsel to deal with certain fiscal stress situations, and some positive viewpoints in meeting the financial challenges of the 1980's.

As one reviews these papers it will be apparent that the theme of "equality" in higher education so dominant in the 1970's has now been succeeded by the theme of "quality." We have moved from the urge for "access" to a yearning for "success."

Virtually every speaker acknowledges that the combination of demographics, economic recession, inflation, and fiscal conservatism will reduce resources available to most institutions. Approaches and methods for dealing with this unhappy set of circumstances are set forth in a number of papers. They come across as well-conceived and born out of experience. They often appear to be conservative rather than aggressive solutions. The traditional deliberateness of the academic world, its past quarter-century of growth, in contrast to retrenchment, and its heavy financial dependence on political decision making, no doubt, contribute to this posture.

We are constrained to make one more observation. There are many references by the speakers to the wastefulness, lack of planning and inflexibility often found in the higher education establishment. In our view, this smacks of self-flagellation. When one compares the performances of some of the major elements of the private sector today with those of higher education, there is no cause for higher education to be overly sensitive about its shortcomings. Indeed, the history of higher education demonstrates time and time again that it can meet its challenges, and with reasonable dispatch. Recall the accommodation of hundreds of thousands of GI's returning after World War II, the implementation of NDEA, the tremendous and necessary expansion of the 1960's and 70's, and the rapid development of the community college systems. All these in the short span of a quarter-century.

The solid, constructive thinking advanced by the discussants at this 1981 conference suggests that higher education will continue to meet its challenges.

Larry L. Leslie, Director
Center for the Study of Higher Education

PART I

THE IMPACT OF FEDERAL GOVERNMENT ON HIGHER EDUCATION

CHAPTER 1

Reagan Administration Policy Statement on Higher Education Finance

Gary Jones

I want to describe briefly the new directions in federal education policy and the new federal-state relationship this administration seeks to advance.

The emphasis is on change: reduced regulation, reduced paperwork, and reduced spending. We are committed to and well on the way to further reduction in all these areas.

Although historically state and local agencies have had the primary responsibility for education, over the years the federal government's role has expanded greatly. Congress enacted many programs that singled out one group or another for special help. As the federal role grew, school officials were submerged and intimidated by a flood of federal questionnaires. Agencies in many cases were handed overlapping responsibilities requiring them to answer to two or three sets of bureaucrats on related issues at the same time.

All of this paperwork has had the effect of taking educators away from the basic purpose of the school, which is to teach. This administration has set as its goal to reverse that trend and to curtail the federal role in education.

The Reagan Administration is trying hard to deal promptly and realistically with the problems Washington created for higher education under previous administrations. And I am certain we have made a promising start.

Dr. Gary Jones is Deputy Undersecretary for Planning, Budget and Evaluation, U.S. Department of Education.

The decisions now being made in Washington – by President Reagan and his administration and by the Congress – will help you to pursue the quest for excellence in the days and years to come.

I say this because the greatest contribution Washington can make is to give the country back its vitality and enthusiasm and confidence – in the economy and in ourselves.

In the decade of the 1970's, the inflation rate in this country averaged 7.8 percent a year. By 1980, that rate had jumped to 12.4 percent. We have seen the impact of excessive federal deficit spending, not only on the economy but on our personal lives. The most pervasive result of runaway inflation, I think, is our sense that as individuals we have, to a considerable extent, lost control of our own lives.

Giving Americans back the freedom to make decisions about their own lives is at the core of the administration's determination to master inflation. The President and the Congress have taken the first essential steps to get the economy and the nation back on track. They have reduced federal spending, though additional spending reductions will have to be made next year and in subsequent years. A balanced federal budget by 1984 is the President's goal, and I think we agree that goal must be met if we are to revitalize the economy and give people the opportunity to buy homes, to send their children to college, and to enjoy retirement in their later years.

The President also has kept his promise to reduce federal taxes. Now he is taking dead aim at the excessive rules and regulations that have so inhibited growth and renewal in business, industry, education, and other segments of our national life.

In education, for example, we are reviewing every single rule and regulation affecting every single federal program. We are finding that some rules and regulations proposed or finalized by past administrations went beyond the congressional mandates or were too prescriptive.

We have eliminated entirely 30 sets of regulations for programs consolidated in the block grant to states and localities under the new Education Consolidation and Improvement Act. Included are the Teacher Corps and Teacher Center programs in which colleges and universities have been directly involved. By doing away with individual program applications and reports, we are saving schools and colleges over 200,000 pages of paperwork at a saving of some $1.5 million a year.

Most recently the Education Department has proposed merging the three campus-based student aid programs into a block grant for fiscal 1983. The proposal would consolidate Supplemental Grants (SEOG), College Work-Study (CW-S), and National Direct Student Loans (NDSL).

The intent is for the block grant to go directly to colleges rather than be negotiated through the states. The goal is to have one simple, comprehensive program that goes as a block grant, not to the states, but to an institution.

In making these changes, the Education Department needs feedback from the higher education community. There are yet questions to be answered: Should institutions have to match the federal money, and should there be a set-aside of funds that could be transferred among the three programs?

I think you will be pleasantly surprised, as you look down the road, at the scope of the administration's deregulation effort. Without in any way reneging on the federal responsibility to assure the rights of minority, disadvantaged, handicapped, and other students protected under federal law, the government is giving the education community the flexibility to use federal funds in the best interest of the students it serves.

Federal efforts in the last 15 years to help in virtually every area of educational need have proven too costly and in many instances not very cost effective. So I think the federal role in higher education in the years ahead will be confined essentially to two areas: 1) financial aid to students and 2) support for research that will sustain us as a nation and as a leader of the free world.

The need for student financial assistance is self-evident. Our young people *are* our future, and it's incumbent upon us to give them the education they will need to take over the reins from our generation when the time comes.

The student-aid program is of necessity tied to the administration's war on inflation. If we don't cut inflation down to some reasonable size, there will never be enough billions in the U.S. Treasury to provide for student aid or research funding, for that matter. And increased costs for attending school, averaging over 13 percent on campuses nationally this year, are simply too much of a burden to place on students and parents.

The student-aid program, which started out in a perfectly reasonable manner, and let's be totally honest about this, got out of control. Designed to help the needy, the aid program had families with six-figure incomes getting loans for their children subsidized by ordinary taxpayers, in effect. Something had to be wrong with that. What we're doing now is going back to the original intent of the law to operate need-based programs.

The inflationary impact of the guaranteed student loan (GSL) program alone will be reduced significantly by the income cap Congress has imposed for automatic eligibility. The $30,000 ceiling on family earnings for such eligibility, unless need is proven, will cut loan volume and, in time, the overall amount government must pay for special allowances to lenders.

Certainly, I'm pleased about the cap, which eventually will bring down the costs of student loans that are so vitally needed. I think, though, we would have been better off if the federal interest on subsidies had been eliminated altogether, because we still have a huge problem when it comes to financing student loans, vital as they are.

Now, while the rest of the education budget is facing a 12 percent reduction, and perhaps more, GSL will get a $636 million increase, because it's an entitlement program whose costs only can be contained legislatively.

These figures should give you some idea of the dimension of our dilemma. Simply put, it will take time to have significant impact on savings, because we must continue to provide subsidies for those huge GSL portfolios currently held by lenders. By reforming GSL and other programs along sound fiscal lines, we at least have a shot at preserving their operational integrity in the years ahead, something I know you would endorse.

We're still projecting more than $2 billion in grants to students in fiscal 1982, keeping the reduction here within the parameters laid out under the budget reconcilation law. I hope we can continue to hold the line and meet budgetary requirements, as we move forward in getting our fiscal house in order.

Some institutions, I'm pleased to note, are redirecting their funding and priorities to make up for reductions brought about by fiscal pressures on federal and state assistance programs. They are attempting to expand their own student-aid efforts.

What are college and universities to do? As labor intensive institutions, you bear an especially heavy burden under the pressures of runaway inflation. So we in government and you on your campuses have a common concern — reducing inflation. I believe this has primacy over anything else we can do in behalf of your special needs and interests, while at the same time serving the overall interests of the nation. Though cuts in student aid, particularly at institutions with a higher percentage of students receiving aid, will be uncomfortable, it's a dose of the medicine that ultimately will help make us all well.

It is a fact that education will have to get by on less from the federal government. Getting by on less will require serious soul-searching in the establishment of priorities, more than a little creativity and, let's face it, in some instances, a profound struggle. I have faith that in that struggle, schools, colleges, and universities will never lose sight of their central purpose – to educate and to educate well.

University-based research is another area of great concern to me. I think one of the great untold stories in America concerns the contributions of our research universities to the betterment of our daily lives, to our national security, to our storehouse of knowledge, and to our understanding of one another as Americans and as co-inhabitants with other peoples on a small planet in an infinite universe.

Much of the research has been conducted under government auspices, though industry and foundations and universities themselves have contributed important support. Last year just about half of all research and development dollars were federal dollars. George Keyworth, President Reagan's science adviser, says that "long-term investment in R&D is very much a part of this administration's perception of technology needs."

As I look ahead to a restructuring of the Department of Education – as an independent agency, or foundation – I see research and dissemination as one of our most important functions – along with our advocacy of excellence in education.

PART II

STATE AND INSTITUTIONAL RESPONSES TO NEW FEDERAL POLICIES

CHAPTER 2

State Response to New Federal Policies

Clyde R. Ingle

This analysis of the state level response to new federal policies toward higher education will suggest that the response is a two-stage process. The first stage response is to the reduction in federal outlays. Stage Two involves the emergence of a cluster of policy issues at the state level which are initiated by the first stage response.

I will analyze both stages of state response and conclude with suggestions of issues around which confusion reigns and which require federal initiatives and leadership.

First Stage Response by States

The first stage response at the state level to the shift in federal policy, characterized most emphatically by reductions in funding for a host of activities, is a scramble among interests to maintain current funding levels – hopefully adjusted upward by 10 percent to cope with inflation.

Two dimensions of this scramble are of critical importance for higher education. First, not only is there a shortfall of resources caused by the federal pull-back, but also in most states the health of the economy – both the cause and effect of the federal administration's new directions – has often resulted in serious revenue shortfalls. In Minnesota, this shortfall represents about $768 million in the current biennium or about 12 percent of the budget. Thus, the shortage of resources caused by federal cutbacks is escalated by a weak economy's effect upon expected state revenues.

Dr. Clyde R. Ingle is Executive Director of the Minnesota Higher Education Coordinating Board.

A second dimension of the scramble at the state level to maintain current level funding is that it is joined not only by higher education but a host of other interests including elementary-secondary education, health care, welfare and transportation. The scramble is going to become very rough for postsecondary education as the ripple effect of the weakness of the economy, coupled with the federal cutbacks, becomes a tidal wave as state executives and legislators seek to respond. Critically, the battle which looms is not so much a battle among institutions, systems and sectors for higher education's piece of the pie as it is a battle between higher education and other interests.

The options available to the states are few. They may increase revenues by increasing taxes. They may choose to reduce obligations and activities. They may choose a combination of these two. Or, they may combine these two with a shifting of current responsibility for services and activities to other sources of responsibility.

The Governor in Minnesota has chosen the last option. In effect, he is following Washington's lead and has proposed to shift the burden of government in two directions away from the state government. First, to local units of government, and secondly, to private sources.

In all these options, the major question is whether there is a national or a state interest which will not be served by shifting the responsibility from the state or federal government to more local units or by removing the function from government altogether.

The central question which is posed, of course, is what is the appropriate role of the federal government? Of the state government? Or, of government in general vis-a-vis the private sector of our society? Ultimately, this is the fundamental issue with which we must struggle. It is an issue which has been debated often before and since the birth of the republic.

While it is never safe to predict the historical importance of such debates as we engage in them, I suggest that we are engaged in a shift in governmental roles of little less than revolutionary proportions. If there is any room for dispassionate judgment in the months ahead, we all may take some solace in the conviction that we are engaged in an historic debate, even if we don't survive in our present form.

Stage Two Response By States

The scramble for a place at a shortened table is going to set in motion a second stage of state response. This response is to focus attention upon key policy issues which have essentially laid dormant for the last ten years or so.

The policy question over-arching all others in postsecondary education is the relative value of postsecondary education in contrast to other social and private needs and values. This value debate is not likely to receive open, direct attention or to result in clear definitive decisions. Therefore, I will not devote further attention to it here. I will shift attention to a cluster of policy issues within postsecondary education which are more likely to result in clear, definitive policy options at the state level in the coming months.

A. The Role and Pattern of "Public" Education

The tendency toward localization and privatization of governmental functions at both the national level and, if Minnesota is representative, at the state level, is likely to highlight and add fuel to the debate which is beginning to stir about the future of what we currently refer to as "public education."

State policy toward elementary-secondary education is a critical policy issue for higher education and must be cited as among those policy debates which represent a state response to federal initiatives for two reasons. First, it represents directly or indirectly around one half of the state budget in Minnesota, and it is the focal point of much dissatisfaction with public service because of its sheer cost on the one hand and its pervasiveness on the other.

The current dissatisfaction is likely to be exacerbated by the current state effort to shift a greater burden to local tax sources, which essentially means the property tax. If this debate becomes more heated, as is likely to be the case, alternatives to the status quo will be sought. In this search lies the second reason why higher education has cause to be critically concerned with emerging state policy toward elementary-secondary education. The current system of postsecondary education in Minnesota, and in much of the nation, is a viable, potential alternative model for the future of elementary-secondary education and its current operating definition of "public-*ness*." Consider for a moment the essential characteristics of the postsecondary system. It embodies in most states a substantial portion of client fees through tuition and fees, thus capturing the principle of user fees which lies at the heart of the move to the private sector, both for theoretical and pragmatic, fiscal reasons. The postsecondary system also provides through the federal and state financial aid systems a way to pursue equality of opportunity by offsetting financial inability to pay. Finally, these two characteristics, together with tradition, encourage a sharing of the function of educating and promote wide individual choice among public institutions and between a public sector and a private sector which provides a wide choice among types of educations.

B. Funding Patterns for Postsecondary Education

Turning to more narrow policy issues, a central one is how a student, a family and a state will finance postsecondary opportunity for its citizens.

The first sub-issue to be addressed is the current pricing structure for post-secondary education – or tuition policy. Clearly, all the incentives are in place for an increase in tuition, including fiscal shortfalls, and the ease of raising tuition compared to closing institutions, or retrenching programs. The broad ramifications of a state tuition policy upon opportunity, upon participation and upon the comparative advantage or disadvantage of a private sector all make the issue of pricing structure in public higher education a critical response area for states.

A second dimension is the role of a financial-aid system. Any clear commitment at the state level to the principle of equal opportunity coupled with anticipated tuition increases and federal reductions in aid will require a review of the existing financial aid system. The Governor's plan for meeting a three-quarters of a billion dollar shortfall in Minnesota proposed no reductions for only two areas in state government – financial aid and corrections. The uncertainty of the federal role also has caused Minnesota legislative leadership to be seriously concerned with a financial-aid system which is as independent as possible from the federal program.

Finally, in the reassessment of current funding strategies for postsecondary education, the role of credit will receive serious attention at the state level. The clear federal intent is to reduce the cost of the student loan program. In the face of this direction, states must determine to what extent if any they will try to provide the credit which is so much a part of our current strategy for funding postsecondary education.

In summary, the essential and central question is how we are going to provide for the financing of a higher education.

C. The Future Role of the Private Sector

It is an irony that the current federal administration's proclivity toward the private sector may very well jeopardize the future of so many private institutions. The reductions of financial aid at the federal level, including the curtailment of available credit, coupled with the resulting fight at the state level for resources, shifts the private institutions into the tender hands of state level politics. Clearly, the ability of the less than superstars to survive over the long run will be determined by a complex interplay of tuition levels and state financial-aid systems, including credit systems and state subsidies for private institutions. Coupled with this shakedown, in a fashion as yet unclear, could be the shift in participation patterns in a state caused by a pricing-aid structure which eliminates the ability of poorer students to choose or which simply places the private institution at a clear and telling pricing disadvantage over the long run. As this state response plays itself out over the next year, will the federal government discern any national interest to be served in promoting the future health of a private sector of higher education? Here the interplay between the states and the federal government may result in some more clear statement of what the national interest is and how it is best to be served.

D. Possible Modification of the Configuration of Postsecondary Education

Many states, Minnesota being perhaps the best example, have experienced substantial expansion of facilities and resources devoted to postsecondary education during the 1970's. A sorting out of institution and program needs is probably overdue. The climate created by the scramble for a continuation of current funding levels is going to be much more open to real choices and decisions than has been the case. The alarm sounded by higher education in Minnesota has been so shrill, so inclined to claim that amputation will be required if the reductions being contemplated come into effect, that the public may very well be ready to accept drastic actions as necessary. Certainly the public commitment to higher education in its present configuration in Minnesota is going to be severely tested.

The unanswered question is the extent to which state actions in response to the new federal initiative will be in conflict with, or supportive of, a national interest, however that concept in postsecondary education will ultimately be defined.

Other Policy Issues

As the states begin to respond to the current federal policies, apparent clear lines of federal and state interest and responsibility are going to become once again blurred as we grapple with specific issues. Even for those issues just cited, cases can be made for why we need a federal presence and initiative. Other issues will be even more clearly the responsibility of federal government. Or, at the least, the national interest must be understood. Two will be cited here.

A. Governmental Support for Basic Research

As the debate becomes heated in St. Paul and other state capitals over the federal initiatives, one area of critical importance is most likely to receive very little attention in the final decision making – basic research. It seems very unlikely that the states can take up the slack in this critical area. Likewise, the assumption that the private sector will pick up the difference is probably ill-founded. Furthermore, even should the private sector do so, there are fundamental problems with a federal withdrawal from support for basic research in our institutions. First, the basic principle of openness and trust in basic research would be threatened if this function were to shift to the private sector. Secondly, the splitting of the basic research role from the training function may well cripple our efforts to train new generations of scientists.

B. Quality Maintenance of Higher Education

The scramble for students which is anticipated in the face of projected enrollment declines, plus the danger of underfunding of programs and institutions, creates a serious threat to the quality of our programs and institutions. Here, the state's role is problematic, at best. First, state level politics make it very difficult to make qualitative decisions or to provide incentives which will promote quality. Second, the nature of the interstate commerce in postsecondary education makes this issue of monitoring quality very difficult at the state level. Finally, the federal role is critical due to the role of accreditation as the key to eligibility for federal financial aid. The present apparent assumption that the private sector through the affected institutions will be able to monitor themselves is very doubtful. Leaving the issue to the market forces in the climate of the next decade is also not likely to protect the broad public interest. While proposing a major federal role in quality monitoring and maintenance is questionable, clearly the states and the federal government have a common interest in this area, especially as it relates to eligibility for financial assistance. Somehow, the federal role must be meshed with the state's role to deal with the critical issue of quality maintenance in higher education.

Conclusions

The new federal policy toward postsecondary education is initiating, through the fiscal stimulus, wide scale review and reassessment at the state level. This process is probably overdue at both the state and federal level. Concern with enrollment projections, with declining productivity, etc., have caused the expression of concern, but nothing stimulates real debate like a shortfall in revenue from whatever source.

Out of this debate we may hope that a new consensus will emerge over the proper role of the federal government and the state governments in postsecondary education. There is a danger that the administration in Washington does not know what its own judgment about the federal role should be, or if it does, that it is unrealistic and in conflict with other goals such as national defense. Clearly from one state perspective, there are definite national interests in such areas as promoting equality of opportunity through financial-aid programs and through federal support for basic research. Thus, we may risk throwing out the baby with the bathwater as the effort to define the "new federalism" in relationship to postsecondary education goes forward.

CHAPTER 3

Institutional Responses to New Federal Policies

E. W. Doty

We in higher education have always tended toward the hyperbole, and that makes it rather difficult to tell from the adjectives and adverbs used just how serious today's situation might be. Virtually all the meetings I have attended since 1969 have been concerned with the financial crisis, the impending financial crisis, solutions with non-traditional students, increasing federal funding for research, decreasing federal funding for research – and a general gnawing feeling that sooner or later something had to give. In 1973 Allan Cartter was pointing out that, in the twelve years preceding, public subsidies to higher education had increased by six times while the gross national product had just barely doubled.

All this while our institutions for the most part have grown, certainly the public ones have, and for the most part they have thrived. While we have been sounding the alarms, we have been increasing our enrollments, expanding our budgets, and even expanding our research. Lately we have lost ground to inflation, but that isn't a phenemonon peculiar to higher education. All during this while we have been remarkably resilient, and I imagine we will continue to be remarkably resilient, if only because there is still slack in the system.

But enough of this optimism! This time it could be for real! A week or so ago I heard a statement that the annual interest on the federal debt is now greater than the entire federal budget, including defense, for the first year of the Kennedy Administration. That was only twenty-one years ago. It is possible that this time the higher education adjectives and adverbs are not exaggerated.

So far, except in the state of Michigan, practically nothing has happened, because all of the conversation has had to do with next year. Possibly the only certain effect so far is uncertainty. This effect does have other effects, of course. When people are uncertain, they often do very little, sometimes do the wrong things, and are almost always ineffective. They also worry and fret, become fearful – and transmit all of those feelings to others who then start worrying and fretting.

Let me try to outline for you some of the effects of the Reagan budget on higher education as I guess at them. It is very difficult to separate recession

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Mr. E. W. Doty is Vice-president for Finance and Management, State University of New York at Buffalo.

effects from Reagan budget effects. It is also very hard to separate completely public from private or independent higher education. If anything, the independents are more dependent on the federal government's largess than the public state institutions and therefore are more likely to be negatively affected by reductions in federal education budgets.

So one effect on public higher education should be increased, or at least stable enrollments, for the next three or four years, because the federal budget effect on the independent or private schools will be to reduce the tuition subsidies to their students. This should move a number of those students into the public universities. Recessions also have had an upward effect on enrollments in public higher education.

One of the Reagan budget moves has been to put an income cap on the federal loan program. The capless federal loan program was a major abuse of the public treasury, and the income cap is an effort to curb the abuse. I may be a little out of touch with inflation, but I don't think that a program with a $30,000 limit on family income (higher if the family can prove need) is one to cause significant concern. It will impose an additional financial burden on the families having $30,000 or more of income, but most of these families will provide the added financial support needed.

The BEOG Program, the Pell Grants, will be something different. In New York state we have the state tuition assistance program which, when combined with the BEOG Program, probably takes care of the lowest and lower income groups, but there is without question going to be greater burden on middle income families and on students from those families. In most states there is no tuition assistance program, and in those states the 25 percent Pell Grant reductions may well have negative effects at all levels. Yet as far as enrollments are concerned, the public institutions should have a net gain.

Many institutions have been making moves toward attracting the so-called non-traditional student, and that trend will continue. The great bulk of the education provided to this non-traditional clientele will be heavily weighted toward job training. There will be some interest in the arts, but most individual student interest will be in "doing something immediately with what they learn."

Most of the attention paid to Mr. Reagan's budgetary initiatives in education has focused on funding. Very little attention has been paid to demand. Yet, if there is one thing that history tells us and repeatedly reconfirms, it is that the American people have a great and abiding faith in the importance — the necessity — of education. I think the demand will continue to be there, shifting somewhat from age group to age group and then back again as time goes by, but nevertheless present in very real and very strong terms. The federal government, the state governments, and the local governments will all respond to that demand.

The effect of other federal budget reductions, for example welfare, will also impact on state education budgets. Reductions in federal education budgets will produce direct negative effects. Reduction in other budgets will have lateral effects. The degree will depend on the priority position of publicly supported higher education in the state in question.

Federal funding for research and development will also be down. Harold Hanson, the staff director of the House Science and Technology Committee, said last month that for physicists, chemists and engineering faculty, the National Science Foundation would have a pretty good budget. Not so for social scientists and those in the arts. Overall the NSF budget is likely to be approximately 25 percent below the current year, with almost all of that reduction in the so-called softer sciences.

Military research and development (R and D) is going to be up. In fact, it probably will be up by more than the non-military R and D will be down. But military R and D will be more D than R, more hardware oriented, and more targeted for industry than for universities. Furthermore, nothing is final yet, and this is the area of the defense budget that is most likely to be cut.

So research funding in inflation adjusted dollars will go down, particularly in those institutions more weighted toward social sciences and the arts than toward physical sciences and engineering.

The student-faculty ratios will go up. Teaching loads will go up. I'm not sure this will be talked about very much; I'm more inclined to think that it will just happen.

Tenured faculty will probably not be retrenched in very great numbers, if at all. Michigan State University has just reduced the size of its faculty by some 10 percent, and they did it without tenured faculty retrenchment. They did have a so-called "contract buy out" approach in which some 80 faculty members were separated voluntarily after receiving two years' severance payment. If Michigan State can be hit as hard as it has been hit and still avoid tenured faculty retrenchment, probably most other schools can, too.

Faculty will pay a price in terms of support. Fortunately their teaching loads and grant seeking loads will go up, so they won't have time to conduct faculty senate investigations of the supporting organizations, and this in turn will save a lot of time all around. It may even turn out that the smaller supporting organizations will provide in real terms almost as much support as before.

The public service function will be reduced. Some of it will be eliminated. Some will be performed only if fully paid for.

We in the public sector will accelerate our claims on private and corporate giving and probably with a better reception from the givers. There will be much more of a contest with the private institutions, which will be increasingly known as the independents and may well come to be known by those of us in public higher education as the "tax-dependent independents."

There probably will be more participation by the chief business officer in the academic planning of the institution. That after all is the heart of the institution and, therefore, it is the heart of both institutional planning and institutional management. I don't think this intrusion by the business officer is all bad. My own experience has been that the business officers as bureaucrats are more practical, more expeditious, more cost/benefit conscious, and erect much less cumbersome bureaucracies than do their academic counterparts.

There will be repeated calls for innovative financial plans and financial planning. I have yet to see an innovative financial plan that did not involve living beyond present means – deferring today's costs to tomorrow's payers. That's not automatically bad. You could argue that for the most part it is and has been good when borrowing from tomorrow has been for true investment in tomorrow. But when we issue, as we have issued, 25- to 20-year bonds to finance 5- to 10-year life equipment – it's innovative all right but not very sound. So there will be increasing calls for innovative financial planning, but there will not be much innovation along the lines that we saw too much of in the sixties and seventies. That combination of low interest and higher inflation, which made innovative financing so smart, is not likely to repeat very soon.

Most of our response so far to the Reagan proposals seems to have come from concern to maintain the status quo of our organizations and the employment they offer – much more than from concern over possible reduction in service to clients. That's very human, although a little bit disappointing. I don't mean that we haven't given lip service to concern for the clients. There has been some genuine concern, but we all tend to think and talk first about preserving what we have – our funding, our staffs, our jobs. It has taken effort to think about the clientele.

Chancellor Willard Genrich, head of the New York State Board of Regents, recently said, "We in education should be the first to insist that we stop borrowing from our children; to insist that we have a sustainable society to pass over to our children; a society of working people who are less, rather than more, saddled with the debts of their parents."

In education we can be flexible, and we will have to be. We do have quite a bit to sell to our clientele and to our public. An educated electorate is essential to our democratic way of life. We need an electorate that is educated – in history, other languages, other cultures – in order to compete with the Japanese, with the Germans, with the Russians, and with the others who are competing with us for world trade and for the Third World's business. The real new markets for our industry and our outputs are in the Third World.

I've heard it said that folks who is optimistic ain't had much experience yet. Well I don't think I'm going to get a whole lot more experience, but I am quite optimistic about the future, the future of public higher education. We will need to be flexible. We will need to modify our organizations. We will need to change them. We will need to change ourselves. But certainly we, of all people, should be the best able to do just that. I think we all will be around for a very long time being flexible but continuing to view with alarm and shock the dire consequences of each of the budgets of the years to come.

PART III

DEVELOPING RESPONSES TO FISCAL STRESS

CHAPTER 4

The SUNY-Albany Experience

Robert C. Shirley

The State University of New York (SUNY) has over sixty campuses (including community colleges), among which are four major university centers: Albany, Binghamton, Buffalo, and Stonybrook. The institution that I will be talking briefly about is SUNY-Albany.

In the summer of 1975, SUNY-Albany had a new president, Emmett Fields, who was committed to the development of a more sophisticated, long-range planning process. Over the next six months, President Fields began to build the organization necessary to implement a new planning program. He recruited a small number of people to carry out the planning function; he also had numerous conversations throughout the university community as a means of preparing the faculty and administrators for a major planning effort. The process was nearing initiation in late 1975 when the "real world" intruded in the form of a fiscal crisis in New York State and New York City. It was in January of 1976 that Governor Carey formally issued a call to all state agencies, including SUNY, to participate in helping New York out of that crisis. Of course, everyone readily accepted the invitation! A major budget reduction was mandated, parts of which were to be effective on April 1, 1976. Cuts in academic affairs were to be effective the following September. All institutions in SUNY were given roughly eight weeks to identify how and where the budget cuts would be made.

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Response to the Budget Reduction Mandate

This is how SUNY-Albany responded to the fiscal stress within a long-range planning perspective. The first event was a meeting of the President and his executive cabinet to discuss alternative modes of response to the crisis. Two principal alternatives were identified at that point. The first option was dubbed the "horizontal approach," i.e., across-the-board reductions whereby all components of the institution would be asked to share equally in the pain. The second option, dubbed the "vertical option," was somewhat more complicated. This option recognized the very real possibility that SUNY-Albany was overextended for the times with its inventory of 129 degree programs, virtually all of which were added in the "golden age" of the 1960's. The vertical option eventually was chosen as the logical approach to the problem, despite the fact that only a few weeks were available for the task. The President decided, however, that it *must* be done, particularly when considering the prospect of even further reductions over the next few years. Thus a group consisting of eleven faculty, two administrators, and two students was appointed to accomplish a full-scale evaluation of all academic programs to determine which should be continued, which should be terminated, and which should be allowed to grow.

That faculty-dominated group came together for its first meeting and heard the rationale for the "vertical approach." The group did not react well at first, as the prospect of terminating tenured colleagues and other concerns began to rise very quickly to the fore. After some deliberation, however, the group agreed to "go vertical." One faculty member in the room, to give you a sense of the dynamics of the situation, in effect said: "I agree with you intellectually that we have to go vertical, but emotionally I can't deal with it." That person asked to be replaced on the task force. It was all done in a very healthy kind of way, and, by and large, there was a spirit of understanding and willingness to proceed despite the magnitude of the task.

Development of Criteria for Evaluation

At that time we began discussing with the faculty how to accomplish the vertical approach. We first discussed a strategic planning framework, one that had been developed over the preceding months, in order to develop a longer-range perspective for making the short-range budget cuts. Within that context we specifically suggested that we ought to think in terms of matching internal strengths with external opportunities, consistent with the overall values and mission of the institution. We further suggested to the group that a way of proceeding with an overall evaluation of programs was to visualize a matrix of criteria and programs. In essence, we proposed to the group that we list all degree programs down one side of the page, and list across the top a set of internal and external factors by which each program would be judged. One column was entitled "decisions on target goals." What that meant was that each program, once evaluated, was to be assigned either a "T" (terminate) or "C" (continue). Then, for all those programs receiving a "C," enter either an "I" (increase resources), "M" (maintain resources) or "R" (reduce resources). Thus the methodology was intended to accomplish a reallocation of resources while also providing the funds necessary to meet the mandated budget reductions. The approach also cast a positive, developmental tone on what otherwise would have been a totally negative, retrenchment exercise.

Detailed Explanation of Criteria

There were five indicators of "internal strengths" which we tried to use, working generally within an overall planning paradigm. First we asked the task force to rate the faculty associated with each degree program and, using all the evidence they (we) could gather, to finally make a judgment as to whether the faculty were Excellent, Strong, Adequate, or Weak. We found in that situation, and I have found it to be true while working with this methodology at other institutions as well, that this particular criterion tends to be very controversial initially. Gaining agreement on how to measure quality is controversial enough, but there is the further complication of applying those measures to colleagues outside one's own field of expertise. Nonetheless, when it comes time to actually make the judgment, it generally turns out to be among the *least* controversial of the eleven criteria we used. The rating is highly judgmental, of course, but I have consistently observed strong convergence of opinion.

The second criterion is Centrality, and the question asked here was whether or not the program is central to the mission of the institution. The methodology requires either a yes or a no response. I suggest forcing a yes or no answer, the assumption being that if you cannot say yes or no, you need to clarify the mission of the institution. However, some institutions using this methodology have preferred to choose between "high," "medium," or "low" in evaluating centrality.

The third internal criterion – Service to Non-majors – seems rather pedestrian. We used the NCHEMS Induced Course Load Matrix, however, to try to get a sense of the intellectual interrelationships among programs. That got very, very messy! In fact, I should have said at the beginning of this presentation that this approach in its entirety is messy! It looks very nice and neat on a score sheet with programs typed down the left and criteria across the top. But there are literally more footnotes to this type of chart than there are entries in the cells. It is a way, however, of structuring the ambiguities involved and surfacing the important questions that have to be asked.

The fourth criterion – Library Holdings – called for an evaluation of excellent, adequate, or poor. We depended heavily on subject bibliographers in the library here, and I have since come to understand that the best evaluators of library holdings may not be the faculty themselves. The fifth criterion, Facilities and Equipment, also required a judgment of excellent, adequate, or poor.

The next criteria focus on the external environment. First is Demand by Majors, meaning demand by students to major in the program. We started off with simple regression analyses prepared by the Institutional Research Office, but those trend lines that came out of that extrapolation were bumped up and down significantly. After all, trend lines are just extrapolations of the past, so we *should* bump them up and down based on what we think the *future* environmental conditions are going to be. We used two ratings on this criterion, one referring to *level* of demand (high, medium, or low) and the other referring roughly to *rate* (increasing, stable, or decreasing).

The second external factor – Demand for Graduates – was our "employability" criterion, and we finally rated each program as high, medium, or low. We tried to use as much objective data as possible – the Bureau of Labor Statistics' Occupational Outlook Handbook, for example. The next focused on the Locational Advantage of programs. The question asked here was: does the program enjoy any unique advantages by virtue of being located in upstate New York? We tried to be very rigorous in the application of this criterion. It was not enough for a program head to say "Here we are with these characteristics, and here's the environment with its compatible characteristics, and at some point in the future the twain shall come together." We required some demonstrable evidence that the twain had *already* met. For example the music program had developed joint programs with other performing groups at the Saratoga Performing Arts Center. And the physics faculty had conducted several joint research projects with General Electric's Research and Development Center in Schenectady. So in order to get a positive rating on the location factor, one had to demonstrate taking advantage of the location.

The last purely external factor – Comparative Advantage – attempted to determine if the program in question possessed unique features that gave it an advantage over similar programs in other institutions. A simple yes or no response was required here.

The last two criteria were hybrids of the external and internal environments. Potential Impact on the Public Front refers to the capabilities of a program to contribute to public policy analysis – an unique element of SUNY-Albany's mission. Programs were rated as high, medium, or low on this factor.

Finally, Cost-Revenue Relationship attempted to assess the revenue-generating capabilities of programs by using a three point scale: excellent, adequate or poor. An "excellent" program was one that generated more money than it spent, a "poor" program spent more than it generated, and "adequate" referred to a break-even program. We basically used the state formula-funding model that New York State employed and "cross-walked" it into degree programs. Income from grants and contracts was used to modify the basic ratings, particularly for graduate programs.

Results of the Process

Those are the eleven criteria. Let me speak briefly about the interaction of those criteria and the way they were used. We decided, for instance, that no numbers would be employed. No numbers. Some people have argued for "normalizing" the scale variations and deriving a generic weighting system. I personally do not recommend such an approach. In fact, I think the *worst* thing you can do is put numbers in this kind of evaluation. Certainly one should use all the quantitative underpinnings that can be developed, but the ratings ought to be *words*, consistent with the judgmental nature of this kind of exercise. The non-numeric approach is also more credible with faculty.

The end result of the process was a group recommendation to the President that 20 of the 129 degree programs be terminated, ranging from a School of Nursing to a small two-student Ph.D. program in Romance Languages. Roughly 16 percent of the faculty would be phased out over a two- to four-year period, depending on how long it took for presently enrolled students to graduate from the program. The commitment was made that all students presently enrolled would have the opportunity to finish. A commitment was also made that no tenured faculty member would be released with less than eighteen months' notice (remember we were doing this in January and February, so we were saying that no tenured person would leave the upcoming September; it would be the *following* September before any tenured faculty might have to leave).

The President then sent the recommendations out for review to affected departments and to the Faculty Senate. I think it's very important to note briefly the nature of the review that occurred at that point. The Senate was told by the President to review the recommendations "to determine if the conclusions flow from the evidence." In other words, the Senate did not have license to go back and redo the work of the task force. Ultimately, the Senate confirmed that the conclusions did flow from the evidence, while lamenting the fact that programs might actually be terminated. *Nobody* wanted to terminate programs, but that was where the evidence was leading.

The affected departments were given ten days to respond, and much material was submitted. The task force reviewed all of the submissions and concluded that no new evidence was available to warrant changing the original recommendations to the President. President Fields thereupon accepted the recommendations and submitted them to then Chancellor Boyer of the SUNY system. Chancellor Boyer accepted the recommendations, as did Ewald Nyquist, then Commissioner of the State Education Department. The process was supposed to *end* at that point, but the New York State Legislature decided to intervene. After much discussion, that body decided that SUNY-Albany should not terminate 20 degree programs but rather only 18. The two degree programs that we were told to put back in the inventory were the bachelor's and master's programs in Italian Studies. Actually, we had anticipated that problem and had asked the Office of Institutional Research for an estimate of how many Italian-American students were on campus. We knew that was an important constituency, and Institutional Research "guessed" that roughly 10 percent of our student body were of Italian-American descent which in our case amounted to 1500 students. The legislators still did not accept that and "requested" that both programs be reinstated. Some funds were provided for those programs, however, in appreciation of the fact that SUNY-Albany was trying to make hard decisions on program priorities.

After this process was finished, and after the 18 programs were terminated, there were approximately 110 faculty positions available to meet the budget mandate or to reallocate to high-priority areas. A total of 38 faculty positions were surrendered to the State, leaving approximately 70 available for reallocation to programs targeted for growth, i.e., those receiving an "I" in the second stage of evaluation. That was the real benefit of this kind of process and what led ultimately to its acceptance, strong acceptance, by a large majority of the faculty on campus. They saw it as a process which, in a bumbling kind of way, tried to make short-range budget cuts consistent with the emerging long-range plan for the campus. Resources were made available for reallocation to emerging areas of strength as a result of program termination. We then began to move forward in developing a coherent strategic plan for the campus, one that was updated annually with significant involvement by departments.

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CHAPTER 5

The Concept of Short-Run Decision Making

Lyman A. Glenny

Short-run decisions are those left over after the long-range decisions have been made or failed. The short run encompasses the vast majority of all decisions. Relatively few short-run decisions result from a studied approach to a long-run plan or strategy. This applies to institutional life as well as to our personal ones. Short-run decisions respond to immediate stimuli with little regard for future consequences. An emergency draws attention to the nature and volume of short-run decisions, but the diurnal judgments and actions of clerks, managers, and top administrators rest on little more than a few data, often inaccurate or inaccurately interpreted, a few insights gained from experience and the expediency of dealing with diverse personal, social, political, and economic elements. Only the most programmed mind responds to short-run crises with a fairly consistent set of responses based primarily on long-range goals. The institutional mind, even with its new computers, high salaried administrators, and offices of planning and institutional research, fails to meet its obligations to planned organizational goals as it responds to current fiscal stresses.

The simplest answer by large scale organizations to emergency financial stress is provided by the almost mindless idea of across-board-cuts. Indeed the response which Frank Bowen and I found in a 1975 study of five states which has reduced higher education budgets was to make it "across-the-board" and later "do it again." Several states made three consecutive across-board-cuts and so did the state coordinating and governing boards. Not until the actual cuts amounted to some 8 percent did it seem to occur to the various leaders that they were damaging the best programs and services as well as the weak ones. Program considerations then began to edge in on the across-board-cuts philosophy. Since these emergencies, even after three years, were not foreseen — no procedures, plans, or processes stood ready to aid in making program decisions rather than across-board-cuts. Fortunately for the higher education institutions in these states the emergency ended with economic recovery and increased state revenues eliminating the need for program priority decisions.

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Across-board-cuts have a long and useful history in public life. Politicians and top administrators make an easy decision which viewed in the short run shows a concern for fairness and equal treatment. The method creates no envy, no acrimony, no crippling, and appears to support the democratic mode of thinking. No doubt the ease of making the decision and the ease with which it can be administered continues to allow and even to encourage such reductions. The current economic depression gives rise to a new spate of across-board-cuts. One state governor after another applies a 2 to 5 percent reduction in current operational budgets across-the-board. No one seems to have the zest behind his efforts to balance the budget as required by law as do the budgeteers at the federal level in applying massive reductions to the public services. The federal reductions, while touching almost all services, vary from one program area to another and claim to be made in the name of program priorities. Few governors, on the other hand, promote selective reductions which extend to most state funded activities. For quick cuts of a magnitude no greater than about 5 percent, governors rely on Across-Board-Cuts – as simple as ABC.

Governors may make such indiscriminate reductions for higher education and other state services, but a few, though not most, campus administrators, finally accepting the warnings about demographic changes in the 1980's, have already worked out more systematic and program oriented means of reducing campus budgets. Internally on such campuses the ABC is considered non-productive, inimical to quality, a display of poor management and a lack of leadership.

What alternatives present themselves in lieu of the old ABC? The answer must be selective, judgmental reductions or a combination of ABC with judged decisions. If judgments are applicable, who should make them? What positions or people? Funds for public higher education pass through many decision levels before the campus gets them. The governor, the legislature, the coordinating board, and the system board first meet the reduction situation, and each applies different reasoning to how cuts will be applied. An examination of each level and the decision alternatives available to each reveal that campuses have more freedom and more capability to apply reductions differentially than the other levels. Let us assume that during the current operating fiscal year the state is confronted with a shortfall in revenue. As is common, by law, the governor must maintain a balanced budget for the state.

Governor

The governor finds by the fourth month into the fiscal year that the early estimates of revenue were far too optimistic. He submitted and the legislature passed a balanced budget. Now he is confronted with reducing expenditures in order to maintain that balance. What alternatives does he consider?

First, he may use the reserve funds which have been set aside to make up for faulty estimates of revenue – rainy day funds. He may also transfer or borrow funds from retirement accounts or reserves held for highways or some other service. Actions such as these have historically met the normal expenditure adjustments facing the governor, but this year finds this governor and most others having little slack left at the state level – few reserves remain. Reserves will meet only a small portion of the funds required to keep the budget in balance throughout the fiscal year. What else can he do?

Second, he could convene the legislature, tell them the magnitude of the shortfall, and ask them to make cuts or raise taxes to fund a balanced budget. He could make no suggestions as to how this is to be done. Rather he could put pressure on the legislature to make the hard funding decisions, avoiding much of the political heat that funding issues raise. This type of action though has its own political traps. His role as leader could be questioned, an unsavory position for a statewide, highly visible officer. The legislature could strike back at him by cutting his favorite programs or by complaining about his lack of proposals for balancing the budget. The legislators too have constituents and dislike making decisions displeasing to any voter. Or the governor could present a program to the legislature suggesting the reductions that should be made, the taxes that should be raised, and the programs which should be maintained at various levels of funding. He mulls over these prospects and decides that considering the amount of money involved it will be much better not to call the legislature – too many political problems for himself, his party, and the legislators. What then is his next alternative?

Third, by executive order he can cut the funds for many functions of the state. But how many? Which ones? The public schools, which take roughly a third of all state revenue, are funded by a statutory formula which he cannot change without legislative approval. This is true also of funds going to localities which could amount to as much as 10 to 20 percent of the budget. Too, federal matching funds, which range from one for one to nine federal dollars for every state dollar, would be lost if health, highways, welfare, and several other programs were to be reduced. Cuts here could exacerbate the state situation rather than solve the problem. If all these services are untouchable to the governor, what is left? Most states have only about 40 percent of the state general revenue in services which can be funded on a discretionary basis by the regular appropriations process. These are the dozens of small state agencies, the courts, law enforcement, and higher education. The governor has no time, nor does he have inclination, to evaluate these services, to set priorities among them, and to cut them differentially – even if some agencies are quietly on his hit list for the next session of the legislature. So what does he finally do – in the spirit of leadership and fair play he applies ABC – across-board-cuts to them all.

Legislature

The legislature does not enter into this picture by choice of the governor. It could call itself into session, but the leadership gladly avoids any such action – they say, let the governor take the rap for cuts – we don't need that kind of trouble.

Coordinating Agency for Higher Education

The agency has probably not influenced the governor at all on the level of cuts by segment or by type of institution. The governor's choices were so limited that he did not seek advice from the agency for higher education or any other one. In states with a single statewide governing board no action would have been taken to influence the governor's decision, but it could, in some cases, apply the final cut for public higher education differentially among the several campuses. For a 2 percent cut it would not do so – too many hard feelings, no procedures or plan for making such selective cuts so it would be better to let the campuses take an ABC.

System Boards

They too would have no plan or strategy in place for making selective reductions among campuses, but they might reduce the impact of the ABC on operations by raising tuition to offset part of the cut with the campuses getting an ABC for the remainder.

Campuses

Here we find no established set of priorities allowing for a differential reduction of funding among the many programs nor would procedures likely be in place if a plan had been tentatively worked out. Campus administrations would be thankful for the tuition raise and would not apply an ABC internally. They would cut back on travel and building and ground maintenance and put a hiring freeze on clerical staff and probably fire those on part-time. It would leave untouched the instructional and research programs and their faculties. If the campus had already absorbed some inflation over several years, the cut measures would be augmented by reductions in staff, nontenured faculty, and perhaps some community services. In each case the reductions would be made to protect the major purpose of the campus and would be least likely to have serious short-range consequences. Reductions of these kinds can be made expediently without developing the extraordinary procedures and processes required if cuts in programs were to be made. Needless to say, if reductions follow on top of reductions in the areas easy to cut, the long-range consequences mount, and many of them will be unanticipated – such as lower faculty productivity for lack of clerical, technical, and typing staffs. The short-run

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decisions at the campus level, if moderate, are just as likely to improve efficiency as to hamper it.

One can conclude that if the higher institutions previously had been budgeted at a fair level of support, a 2 percent reduction in their income would do no great harm. But alas, the governor, just as he thought he had played his role well for this fiscal year, finds that the revenue forecast for the next year will be 5 to 8 percent below this year's revenue. Now then, what roles do the several different levels of decision making play in this new, much more serious drama? They are required to conduct themselves very differently. The premises for decisions will change as will the decisions themselves.

Governor

He quickly rejects the possibility of applying the new reductions in the same ABC manner as the current year. Higher education, which took the 2 percent cut with much wailing and public outcry, was found to be justified in its reaction. Of the discretionary funded agencies of the state, higher education received from 30 to 40 percent of the total funds paid out. It also suffered 30 to 40 percent of the state ABC. The governor could not apply an 8 percent ABC on top of the 2 percent without arousing real concern on the part of the legislature, the institutions, and the public about the impact on the quality of higher education. His new major decision thus results from the effects of his previous hasty decision to ABC only the state agencies and services funded from the state discretionary monies. What is that new decision?

He now thinks it essential to 1) spread the misery among far more state programs including local services, federal matching services, and perhaps even the common schools; or 2) be judgmental and selective by cutting some services more severely than others; or 3) raise taxes to offset part of the shortfall, cut selectively into a wide range of services and ABC the remainder; or 4) (the permutations could be almost endless so I stop here). The political problems he will face with the localities and with the legislature remain serious – the same as during the current year, but he sees no choice but to give the legislature a plan for program reductions and tax increases. It will be his program; he will provide the leadership and will attempt to be a hero in the process.

Legislature

It will be called into special session in the few states with a two-year budget cycle and be in regular session in all other states. It will have to act (only Pennsylvania seems able to run a state on borrowed funds and no appropriations for months at a time). The govenor's program of cuts and taxes will be something of a shambles after legislative attention – but a balanced budget will ensue. The income tax and sales tax probably will not be molested, but minor taxes or fees will be increased, some programs will be funded at higher levels than before, some will take drastic cuts, and a group of smaller state agencies may again be picked for a low ABC. What happens to higher education?

The college and university budgets will be cut differentially among the segments and quite probably among the campuses in systems where the legislature normally makes appropriations to each campus. The legislature will encourage higher tuition by withholding some state funds to be made up from tuition sources. It will limit construction of all facilities to a fraction of that previously planned for the institutions. It may omit or heavily limit faculty salary increases (along with those for all state workers) and undoubtedly will call for greater faculty productivity of student credit hours or increase the student-faculty ratio in the funding formulas.

Coordinating Agency for Higher Education

The agency, and more particularly its director and budget staff, will play, in most states, a very influential role in relation to both the governor and the legislature. It will make recommendations on allocations among the segments and may even call for reduction of specific programs which appear duplicative or unnecessary. The recommendations will be in part, if not wholly, based upon some conception of long-range education objectives previously adopted by the agency. The governor and the legislature will seriously consider agency recommendations, and while the final appropriations may be at substantial variance with the recommendations, agency influence will have been very great.

System Boards

These boards would now hesitate to ABC all the campuses, for in almost every system the weak ones would nearly collapse and the best weakened by such action. Program quality which they berated the governor about on the 2 percent cut now becomes more than rhetoric to the board itself. It will place caps on enrollment on some campuses or programs, will differentiate among campuses on the total reductions to be made, will again raise tuition, and it will call for action by the institutions to create long-range plans and to develop cutback procedures for programs and faculty before another crisis occurs.

Campuses

At this level, if the reduction amounts to 5 to 8 percent, the campus will make further cuts in the services already reduced, will cut back on TAs and RAs at the research universities, and lay off most part-time instructional personnel. These reductions will be viewed as short run with the goal of having in place within a short time a more rationally arrived at plan for setting program priorities so that the weak may be eliminated.

A reasonable person could reasonably conclude from the actions taken at the several levels that the decisions were themselves reasonable and not unexpected given the environment and the unreasonable circumstances.

For the politicians, politics usually, although not inevitably, maintains the highest priority, and the substance of programs comes second. When really serious fiscal considerations force substance to the forefront, the politician deals with it first in an evenhanded across-the-board mode and then turns to selective reductions of programs or educational segments depending on legislative priorities. Higher education suffers most with ABC but may be somewhat relieved when selective cutting becomes the practice. The political decision processes appear to be much more rational than one might expect, given the reputations of legislatures and governors by public pollsters.

For the state coordinating agency, the higher education long-range planner and short-range fire fighter, recommendations are neither sought nor given in the short-run emergency. In increasingly difficult fiscal times its decisions derive from fairly decent data bases, from social, economic, and educational trends and from extensive analyses adapted to longer range goals – not ten-year ones but not for just the next budget cycle either. These agencies do not respond to fiscal stress entirely in the reactive mode. Among other things, they assert priorities through differential funding recommendation for the several segments of colleges and universities, provide analyses to policy makers of the effects of changes in student aids and of the current flows of students among types of institutions resulting from changes in tuition and student aid. They have influence on both the governor and the legislature.

For system boards a more reactive mode than that of the coordinating agency is likely, especially if already under stress of the first fiscal emergency. With onset of continuing fiscal problems they turn to establishing processes and procedures that better prepare them to deal with future crises. These boards attempt to balance interests of the various colleges and universities with those involving welfare of the total system over which the board presides. Trends and data, fairly available, allow analyses of some depth between various sets of assumptions about the future. Computer simulations on student flows by program, by campus, and by unit costs – by the second or third year of financial trouble provide a base from which a lay board may depart at times for political and social reasons but normally not far from the administrative recommendations. Those recommendations responding to financial stress increasingly become selective and program oriented.

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The local campus is the only level at which the very first response to stress takes the form of selective or "targets of opportunity" cuts rather than ABC. Authors at times have distinguished between operational decisions to stress as opposed to those programmatic. If this dichotomy is used, the local campus employs no more foresight and no more reasonableness than do the other levels of decision. Immediate fiscal crisis decisions appear much more numerous at the campus level and deal with details for which no higher level assumes responsibility, but these local decisions often fail to comprehend long-range or even intermediate-range consequences. Note that instruction and research activities remain untouched, except for such "minor" items as the indirect results of cuts in clerical and technical staffs, new or replacement equipment, faculty travel, libraries, building maintenance, and the ambience of faculty offices, classrooms and laboratories. These types of selective reductions, if left in place for several years or, even more likely, if further reduced before programmatic considerations come to the fore, result in pemanent damage to instructions and research. These selective cuts are not as mindless as the ABC but if made and left uncorrected in the mistaken belief that every program of instruction and research has equal merit then the institution destines itself to ever lower levels of mediocrity.

The above illustrations and comment have dealt with fiscal crises, immediate and unexpected. The majority of institutions of higher education can expect, in addition to state financial problems, a shortfall in enrollments. These unwanted drops in enrollment will eventually exacerbate the other financial problems a campus may be encountering. On some campuses, enrollment drops of from 20 to 40 percent occurred in 1973-75, and even in 1981 we find some institutions rapidly losing enrollment while others experience increases. The drops in student numbers appear to be just as unexpected as if a state had a shortfall in current revenue. The concepts for facing fiscal crises in the short run apply to both these situations.

Decision Concepts

The following observations about decision concepts encompass both response to enrollment drops and to fiscal stress. These concepts derive from my own experience and research and from that done jointly with Frank Bowen on both state-level agencies and on campus response to stress. From this research we have arrived at a number of concepts to be reflected on by campus and state agency administrators.

As a prelude to examining concepts one law should be mentioned. The most obvious and most ignored of all the concepts relating to cutbacks is that substantial revenues can only be obtained by reducing salaries or by firing faculty and staff, or both. If programs are eliminated, few if any savings result

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unless layoffs occur. Yet many presidents have asked me why, when they have made controversial decisions about program reductions, so little money returns to the treasury. Why indeed?

1. ABC (across-board-cut) remains the most expeditious and quick way to reduce expenditures. In making ABC reductions, equity could be greatly improved if more attention were paid to the size of the units to be cut. The large units have more budget slack, flexibility, part-time and temporary staff, and ability to transfer internal personnel. Administrators can adapt to ABC by manipulating these elements without substantive damage to major operational activities. The smaller units have much less budget slack and flexibility. Each staff member, of necessity, must be specialized with no adequate substitute likely employed in the same unit if the staff member is released. A program is immediately impaired – or even wiped out.

   Hiring freezes are a form of ABC. Vacancies, based on retirements, deaths, and mobility, fall almost randomly on all programs and services, regardless of merit or priority. Some losses may be covered by transfer of personnel or use of part-time persons, but in small units such actions may be impossible.

   ABC reasonably can be applied to classes of institutions, agencies or programs of like priority and of like size. Both elements of size and priority can be given some considerations even in the short-run decisions – and in the interest of equity should be.

2. Selective "targets of opportunity" reductions on such items as travel, maintenance, and equipment, are especially appropriate to campus-level actions to meet short-term emergencies and only do indirect, moderate harm to core functions. If left in place for a year or more, they can cause damage. If the same items are heavily reduced in subsequent cuts, impairment of core instructional and research work will be inevitable and perhaps will inflict permanent damage.

   In making selective cuts above the campus level, special care must be taken to avoid hardship to services particularly vulnerable to "operational" reductions. In certain small or highly specialized units even small reductions have discommensurate results.

3. Faculty and staff attrition resulting from death, migration, and retirement brings instant savings in salary, but the attrition process is almost as mindless as ABC unless means are provided to return certain critical positions to the operational unit. Attrition strikes indiscriminately, and even in the short run some important programmatic decisions result

from not refilling a position vacated by the only expert in a critical function or field. The unit may "make do" with persons secondarily prepared to help provide the expertness required but with certain detriment to quality of program and service. With only minor exceptions, personnel transfers resulting from budget reductions mean lower quality.

Over the longer run, by design, attrition may serve to abolish certain low priority activities, but aside from the assumed humaneness of job security to those demoralized persons remaining, such practices serve to lengthen unduly the process for recovering funds to balance budgets. It is much better to remove the unit along with all faculty and staff as quickly as current students in the program complete their work.

Attrition is possibly the most used method for intermediate and long-range reductions at the campus and system level. The practice has little to commend it, except for the very short run.

4. The corollary to hiring freezes and attrition policies is that as lower level staff wane away, administrative decisions normally made at lower levels, especially personnel ones, are pushed to higher and still higher levels. Top administrators then find themselves unexpectedly making quite unimportant decisions on operations in lieu of focusing attention on implanting processes for reduction by priority of program and service with a view to long-range implications.

5. Short-term decisions will be sound for the long run only if based on programmatic factors and long-term effects.

   a. Processes and procedures should be developed for implementing reductions of programs and services prior to the emergency.

   b. In 1981 no excuse exists for higher education institutions or state agencies to have failed to replace temporary expedients with well developed plans and procedures for reductions. The enrollment crises of 1972-75 gave fair warning of the kinds of demographic difficulties to be faced by most institutions – public and private – throughout the next 15 years. The current economic depression with consequent revenue losses merely aggravates foreseen crises.

   c. Plans, practices, and procedures should be developed conjointly with faculty and staff on each campus under whatever constraints may be imposed from higher levels. Experience has shown so far that few such constraints exist. As large a proportion as possible of campus personnel should understand the plans and procedures and have a fairly high degree of confidence that when administered they will be fair and follow due process. Especially important to be understood are those procedures for setting priorities in programs and for making faculty and staff reductions.

d. Processes and procedures in times of crises should be implemented by the administration and, insofar as the faculty is willing, with its advice. Faculty should be heavily involved in the development of plans and procedures but should not be expected to make decisions as procedures are effected.

e. Insofar as possible, the plans, procedures, and processes should be related to the objectives and goals of long-range plans, thus becoming tools for continuing implementation of the plans rather than merely reactive to the short-run crisis.

These concepts could be augmented by much detail and many subconcepts, but these suffice to conclude that if the onset of an emergency is extremely swift (as in the case of shortfalls in current revenues) short-run decisions must be made; they cannot be wholly avoided. Administrative/management leadership may be gauged by the length of time the short-run decisions remain in effect. If more than a year passes before short-run decisions are reviewed and changed for compliance with program and service priorities, the administration is derelict in its responsibilities. So are faculty members who refuse to aid in processes for establishing the plans for determining the quality of programs and of their faculty colleagues. The 1980's are and will continue to be a period of unpredictable political and economic strategies added to equally uncertain enrollments. To avoid easy short-run decisions leading to weakness, stress, and the lowering of educational opportunity and quality, it will take the best efforts of all those interested in the welfare of higher education to make a positive, qualitatively better future.

CHAPTER 6

The Idaho Experience

David L. McKinney

We qualify for having been in a state of fiscal stress in Idaho when one recognizes that for the three-year period FY 1979-80 through 1981-82 the increase in funding to meet our maintenance level of operating needs has only been half of what we needed. At the University of Idaho we have had to eliminate programs. We have eliminated nearly 150 positions in the last three years, which represents about 10 percent of our faculty and staff at the university, supported from appropriated funds. For fiscal year 1980, the State Board of Education declared a state of financial exigency for the University of Idaho Agricultural Research and Cooperative Extension programs, and for fiscal year 1982, the Board has declared a state of financial exigency for all of the colleges and universities as well as the Agricultural Research and Cooperative Extension programs.

What I will share with you today is another case history of how a state and a university have responded to inadequacy of funding. In Idaho, about 90 percent of a total enrollment of about 25,000 is in public supported institutions. During the past three years, enrollment has grown about 3-5 percent each year. There are three public universities – University of Idaho at Moscow, Idaho State University at Pocatello, and Boise State University at Boise; one community college – Lewis-Clark State College in Lewiston; two junior colleges – Northern Idaho College at Coeur d'Alene and College of Southern Idaho in Twin Falls; and one vocational/technical school in Idaho Falls. The University of Idaho was founded in 1889 and is the land-grant university. It also has been assigned the mission as the chief research center for the state and chief center for research oriented doctoral graduate education. This fall's enrollment was 7,926 FTE, 55 percent at the lower division level, 34 percent at the upper divison level, and 11 percent at the graduate/professional level.

Governance of higher education in Idaho is somewhat unusual. The University of Idaho is governed by the Regents of the University of Idaho. Idaho State University, Boise State University, and Lewis-Clark State College are governed by boards of trustees. However, the same people serve both as Regents of the University of Idaho and as trustees of the other institutions. These persons also serve as the State Board of Education, which has the

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responsibility for K through 12 public education. The State of Idaho follows an annual budgeting procedure. The institutions submit their requests to the Board. The Board reviews those requests and prepares their recommendation to the Governor. The Governor in turn prepares a request to the Legislature, and the Legislature then acts on the Governor's recommendation and the agencies' requests through the work of a Joint Senate/House Finance/ Appropriations Committee.

The procedure usually starts in June and ends with the action of the Legislature in March of the following year. The Legislature appropriates a lump sum called "colleges and universities" to the Board, which then allocates monies to the University of Idaho, Idaho State University, Boise State University, and Lewis-Clark State College for their "general education" operations. Additionally, the Legislature makes line-item appropriations to the University of Idaho for the Agricultural Research and Cooperative Extension programs, plus separate appropriations for the Veterinary Medicine cooperative program, the WAMI regional medical education program, and for the Forest Utilization Research program. The significance of these separate appropriations from the "general education" funding of the university is that neither the Board nor the university has the authority to move funds between these separately appropriated programs. Thus, the university receives no revenue help for the special programs when the Board raises student fees which help support the "general education" budget.

In addition to identifying the sum of monies available to these appropriated areas, the Legislature typically will also mandate salary changes for state employees. For most agencies, including the university's special programs areas, the Legislature will identify the appropriation in terms of personnel services and operating expenses, capital outlay, and there are restrictions as to the movement of monies between those categories of expenditures.

Content of the appropriation for "colleges and universities" will include state revenue (state tax dollars), the endowment incomes earned on the land-grant endowments that are managed by the state for the University of Idaho, and also the education-science endowments for the other universities. Also, some of the student fees that are put into the general operation of the university are appropriated by the state, as are federal appropriations, such as the Bankhead-Jones Funds and the Morrill Funds. By far, the largest portion of the appropriations for "colleges and univerisities" comes from state revenues (about 82 percent).

This is the background and the framework in which the University of Idaho addressed the funding shortfalls over the last three years. In fiscal year 1980, the money for higher eduation and the allocation to the University of Idaho was a 2.3 percent increase in appropriations. The university had a maintenance obligation of nearly 11 percent; that included a state salary increase expectation of 7 percent. The problem of higher education funding for FY 1980 was precipitated by the passage of a voter referendum in the fall of 1978 that was called the 1 percent initiative. That initiative mandated the Legislature to limit property tax to 1 percent of the market value of property. While the Legislature had the responsibility for implementing the 1 percent initiative, the immediate impact was a shift toward more state support for public schools. Without increasing the size of the state revenue pie, the Legislature shifted funds from other state services, including higher education. Thus, the funding problems for higher education were born.

How did the university respond to that shortfall? The process really began in the summer of 1978 when the Governor requested a modified zero base budget plan that started at 70 percent of the current year's appropriation base, in anticipation of the 1 percent initiative passage. All state organizations were asked to prepare budgets beginning at 70 percent and incrementally moving forward to the total FY 1980 request.

Although there was some progress made on the campuses to fulfill that request, the Board convinced the Governor that a more realistic budget exercise was to look at 90 percent, 95 percent, 100 percent, and 105 percent of the current appropriation and requested the universities to construct budget plans on those bases. In asking the universities to prepare the 90 percent, 95 percent, etc., budget plans, the Board's only guidelines were that we had to stay within each appropriated area and that we could not consider a general fee increase as an alternative to program reduction. Thus, we were to address the alternative funding levels as if they were allocated across-the-board to the major appropriated areas. Each appropriated program area was to be independently considered at 90 percent, 95 percent, etc.

Upon receipt of the Board's request, the University of Idaho president appointed a special budget planning committee, more commonly referred to on campus as the "Budget Axe Committee." This was chaired by the academic vice president. It also included the financial vice president (new in October), the executive assistant to the president, two deans, chairman of the faculty council, and the faculty council's budget liason committee which was three faculty members who are selected by the faculty council to serve on the standing committee of the council.

A set of criteria or assumptions was developed by the committee and approved by the president to be used in the several budget plans. First, academic programs had the highest priority and for every dollar taken from the academic area, two dollars must come from the nonacademic area. Second, all solutions had to be considered permanent in nature. Temporary, "Bandaid" kind of measures were not acceptable. Furthermore, the committee's proposals had to be credible and capable of implementation. The committee was not to offer up sacrificial plans that would obviously be unacceptable to the Board or the State. Dollar values for reductions were to be computed in next year's dollars that included inflation consideration and salary increases. Selectivity for reduction was to be the rule rather than across-the-board. Particular emphasis was to be put on looking at eliminating layers of administration before elimination or reduction of services could be proposed. Finally, user fees could be considered wherever applicable, but the general policy was that we were not to simply shift the burden to the students through laboratory fees, special course fees, etc.

The budget planning committee solicited extensive input from all sectors of the campus. All of the departments, academic and nonacademic, submitted information about impacts of various funding levels. A report was prepared called "Alternate Budget Planning Project – Board of Regents" and submitted to the Board in December of 1978. While that report looked at specific budget areas, it did not identify any specific positions or individuals to be eliminated. However, one could read between the lines and clearly see where the general areas of reduction were going to be.

I do not recall that that report was ever publicly discussed by the Board, nor was it transmitted to the Legislature for any consideration in the appropriation process. However, one of the observations of the "Budget Axe Committee" that did get transmitted to the Legislature was that there was a major need for flexibility in how the funds could be allocated. The president and the Board, in anticipation of shortfall in funding, impressed on the Legislature the need that the Board and the institutions' hands should not be tied in terms of numbers of FTE's, expenditures for personnel services, capital outlay, etc.

As noted earlier, the result of the legislative action was that the funding for higher education fell short by nearly 9 percent to meet maintenance obligations. In addition to the shortfall funding for both the colleges and universities and the special programs at the University of Idaho, the Legislature also did not appropriate funds for several specific programs in Agricultural Research and Cooperative Extension, most of which were supported by federal funds but appropriated by the State.

The Board's response to the shortfall in funding was to declare financial exigency for Agricultural Research and Cooperative Extension because there were tenured faculty involved in the programs eliminated by the Legislature. They allocated the lump sum appropriation to colleges and universities on the same distribution as the FY 1979 allocation. Furthermore, they developed a reduction in force policy for implementation during financial exigency and clarified employee status for all categories of employees in the colleges and universities.

The university's internal allocation decisions used the previous fall's alternate budget planning exercise extensively.

In addition to trying to meet just the inflationary adjustments and salary obligations, we also inherited a number of other budget problems that had to be addressed in the allocations of the 1980 appropriation. These included the fact that historically the university had included in its budget an amount estimated from salary savings each year. We felt that it was not good budgeting to include anticipated savings from personnel turnover as part of the base budget support but rather to use those funds as they became available to cover needs as they arose during the year. Secondly, there were a number of obligations that had been made by the previous administration that had to be met and addressed on a permanent basis.

The impact of correcting our internal budget problems and the shortfall in appropriations was that we had to eliminate 62 positions in the general education budget at the university, 110 overall, the remainder coming from the special appropriated programs, primarily Agricultural Research and Cooperative Extension, as well as some service operations what were heavily dependent on charge-back fees to appropriated funds. While we only eliminated 11 faculty positions, all vacant, in the academic area, we did have to cut 26 instructional assistants/graduate assistant positions which obviously impacted on faculty workload. Thirty-four employees (22 in general education) lost their jobs as part of the 110 overall reduction. However, in General Education all of the people were subsequently placed in other jobs except one person who refused to accept an alternate type of position.

When the dust settled on the internal allocation of the FY 1980 appropriation, there emerged both positive and negative results. Certainly the necessity to reduce some services and some investment in maintenance would hurt. But there was also a feeling that some good had come out of the process. We found we could get along very well not doing some things, and we improved considerably some of our internal budget management procedures. Our work the previous fall on the "Budget Axe Committee" stood up very well when implemented. To communicate both the good and bad we published a booklet called "FY 1980 Budget Plan" in which we outlined the problem and our solutions. That was a well received document, particularly on the campus and by some legislators.

Having survived, in some fashion, the storm of the 1980 appropriation, we entered the fiscal year 1981 budget cycle with great anticipation. There was an expressed feeling in the Legislature that higher education had been dealt with harshly the previous year and needed some help. The result was an 11 percent increase in state appropriations for higher education.

However, signals began to appear in the spring of 1980 that there might be revenue problems for the state. There had been a riot by inmates in the state penitentiary which cost the state several million dollars in temporary repairs and temporary accommodations. Tourism lost some 40-50 percent of its expected income because of the eruption of Mt. St. Helens. This not only impacted state revenues but also added clean-up costs. Also contributing to the state's economic problems was the beginning of the national recession in the construction industry, which already impacted the state's timber industry.

In mid-August 1980, the Governor was forced to announce a 3 percent holdback of state general account funds, followed a week later by another .85 percent holdback. The impact on the University of Idaho was another 1.4 million dollar loss in budget support. The shortfall in funding for colleges and universities was again passed on to the colleges and universities by the Board, the same percentage basis as the original allocation for 1979-1980 had been.

The university's response to this nearly 4 percent reduction in budget support was short-termed. There was, at that time, an expectation that we would get the holdback returned in FY 1982. Also, the Board was considering a fee increase to offset the loss of state revenue to the colleges and universities. Thus, our action was to commit nearly all of the existing operating reserves that were managed by the central administration, including a sizeable carry forward from FY 1980 that had been built up in anticipation of the action taken by the Governor. This allowed us to off-set about half of the budget obligations impacted by the holdback. Also, we reduced travel budgets in all of the appropriated accounts by 10 percent, as recommended by the Governor. However, we did allow departments and colleges to reallocate from other areas of their support budgets back into travel if they felt that was a higher priority. We also reduced general operating support budgets (nonpersonnel) by about 1 percent. Furthermore, we eliminated some specifically planned programs such as faculty development programs, a cable television connection with Washington State University, just eight miles away, and a fund that we had established to make some specific investment in instructional equipment. No personnel reductions were imposed and no vacant positions eliminated.

At the same time that the Board made its allocation of the holdback to each of the colleges and universities, it initiated administrative procedures to raise resident student fees $50, nonresident fees an additional $100, and part-time students an additional $4 per credit hour, all to be effective for the second semester of the 1980-81 year.

There is a constitutional prohibition against charging tuition at the University of Idaho for residents of the state, and that same restriction has been applied by the Legislature to the other universities and colleges. Student fees in Idaho rank at or near the bottom among most state universities. However, the Board has historically charged the students a $10 "institutional fee" that was deposited into the appropriated accounts. The Board increased that fee by $50. When the fee increases were finally approved by the Board for the second semester, the university applied its share of the new income to some of the programs it had to eliminate and constructed small reserves to carry through the remainder of the year.

The bleak revenue picture that emerged in 1980 was carried into the consideration for the state funding of all agencies and institutions for FY 1982. In addition, the new legislators elected in the fall of 1980 included a great number of fiscal conservatives. For the first time in many years, major differences occurred between the Governor's staffs' revenue projections and those of the Legislature, with the latter's prevailing. Believing that they could force the Board to eliminate programs by reduced funding, the Legislature only appropriated slightly more than a 5 percent increase in state general account funds to satisfy maintenance obligations of about 11 percent, including a mandated 8 percent salary increase for state employees.

In addition to the funding shortfall, the Legislature also mandated that no public funds should be used for public broadcasting, which meant a loss of an additional 1.2 million dollars in the appropriation for colleges and universities. Each of the three universities operates a public broadcasting facility.

As a result of the legislative action, the Board elected to declare financial exigency for all of the colleges and universities and for Agricultural Research and Cooperative Extension. To partially offset the burden of the shortfall in funding on the colleges and universities, the Board elected to again raise student fees. This time the increase was $100 per semester for resident students, $100 additionally for nonresident students, and $10 per credit hour for part-time students. These fee increases included the increases made the previous semester.

With the student fee increase, the University of Idaho was able to meet its maintenance of current operations, except for some needs of the Colleges of Engineering and Business which were experiencing significant growths in enrollment. However, the university's programs in Agricultural Research and Cooperative Extension could not benefit from the new fee revenue and again was faced with the lay-off of faculty and staff and the closure of programs. Within the colleges and universities general education appropriation, the only tenured faculty that were eliminated were at Lewis-Clark State College. However, in Agricultural Research and Cooperative Extension, we lost another 24 positions, including five tenured faculty. The task this time for the College of Agriculture to identify where the budget cuts would have to be made was much more difficult than it was in 1980. In 1980 the Legislature identified those program areas that they wanted to be cut.

As we look to the 1982-83 fiscal year, a month ago we were again very optimistic. The Governor had identified colleges and universities and the agriculture programs as those he was targeting for a significant improvement in the funding. He had expressed particular sympathy for the low faculty salary problem. However, now the revenue projections are beginning to show significant softening, and we may be faced with another year of financial stress. The cutbacks in federal funds for the state compounds the problem.

Although the specifics of our situation over the past three years may have limited applicability, there are some general observations that can be made about our experience that may have some value to other institutions, particularly those in the public supported sector.

I believe it is imperative for any organization, whether at the board level, at the institutional level, or within the institution, that the decision makers must have the maximum amount of flexibility in determining how and where they will put the resources. This includes no restrictions on numbers of FTEs or how much is budgeted for travel or how much the Legislature appropriated for capital equipment, etc. We found as we asked our colleges and departments to look at various funding implications it was extremely productive to be able to say to them "here is x amount of dollars; now tell us what you would do with that" and leave it to them.

Flexibility also extends to dedicated as opposed to undedicated funding sources. We have found it extremely helpful to have as few as possible dedicated funding sources for programs that clearly have to be considered in the prioritization of programs and services.

Another aspect of the flexibility that we have taken advantage of is that we have been able to effect cost saving changes in the way we do our business on the campuses and that neither Board nor Legislature has, to date, reduced our allocation or appropriation to remove our internal use of those savings. Clearly, there must be an incentive on the campuses and within departments on the campus to implement cost saving measures and reallocate those funds. That is absolutely essential.

I have found that flexibility is not an extremely difficult concept to sell legislators. The more difficult practice is to be willing to apply it internally, to allow deans and department heads a similar degree of flexibility.

Being forced to look at the way we do business on the campus has caused us to make significant improvement in the quality of our management. We are much leaner in our investment in nonacademic administrative areas. Today we spend 60 cents of every dollar we receive directly on teaching, research, or service activities at the University of Idaho, as compared to an average of about 45 cents at most institutions that I have observed. We have become much more aware of management techniques and management skills. We are conducting training seminars for all levels of management.

One of our weaknesses, with respect to decision making about fund allocations on the campus, continues to be in the academic area. We have not been able to develop an acceptable rationale that defines how much money ought to go to the College of Business, etc. We began working on it, but I suspect that we are a long ways away from it. We have not solved the problem of how to shift funds when enrollment shifts dictate a need to reallocate. Our current approach is to use turnover to shift dollars.

Finally, I want to comment about the state's organization of higher education and its influence on how the University of Idaho and the other institutions responded to the financial distress.

One of the actions that we have studied extensively at the University of Idaho is whether we should impose enrollment restrictions on some or all of our academic programs. However, for one institution to limit its enrollments it would seem to us may simply shift the burden to another institution. With the insecurity of how the appropriations pie might be divided in the future, we have rejected any major limitations of enrollments if it might shift enrollments to our sister institutions. On the other hand, enrollment limitations are clearly an option of the State Board.

We have also looked at major academic program reductions or program elimination. Certainly we are not in the position to deal with program duplication. Who is to say that our business program duplicates another institution's program? We had a plan during one of the budget exercises that would eliminate those academic program areas that had the least impact on the land-grant mission of the institution or impacted other programs the least. However, careful examination of that list of programs might lead one to conclude that while those eliminations might solve the financial problems of the University of Idaho, there could be questions asked about the desirability of those closures on the overall higher education opportunities in the state.

My point in raising these issues is to suggest that we in Idaho may not have done all we can to solve our financial problems because of our structure. Decisions about enrollment limitations, program duplications and program priorities, and institutions' roles and missions are key resource allocation management decisions, to be made in the context of the entire educational system. In our structure, we are expecting a lay, part-time board responsible for all levels of education, to understand all the issues related to these key decisions and to impose such decisions on four rather autonomous institutions in a very political environment. I am becoming increasingly convinced that it is an impossible task because we are expecting a Board to function as management. That seems contrary to good organizational theory.

Do not interpret what I say about the structure as a complaint about the people involved. To the contrary, I believe we have as fine a group of board members as any I have had the opportunity to work with. I know they understand the issues I have raised, but it is extremely difficult for them to implement any action to solve the problems.

PART IV

ALTERNATE PERSPECTIVES ON FISCAL STRESS

CHAPTER 7

Responses to Fiscal Stress: Contrasting Higher Education and the Private Sector

Kim S. Cameron

Most predictions of the future of colleges and universities as organizations include conditions of decline.[1] The severity and precise nature of the decline is unknown, but almost everyone agrees that we are facing an era of cut-back. For example, census projections predict that the numbers of 18-year olds and high school graduates will decline in absolute numbers until at least 1992, and it will be near the year 2000 before their numbers reach the 1980 levels again.

Some writers have suggested that because of increased participation rates by 18-year olds and an increase in enrollments of non-traditional students (e.g., older women, returnees, foreigners, continuing education students), the severity of the decline will be minimal, if it occurs at all (Bowen, 1974). Others suggest that the decline will be even more severe than trends show, because rising costs will result in fewer middle- and lower-class individuals pursuing a college education (Freeman, 1976). Moreover, because private sector organizations are increasingly finding that a college education is not good preparation for job success, they are instituting their own education programs (Mintzberg, 1975; Whetten & Cameron, 1982; Livingston, 1971). Baldridge (1981), on the one hand, indicated that enrollment decline is not a problem facing administrators of colleges and universities, while on the other hand, Klitgaard (1979) suggested that enrollment problems are critical in a large percentage of institutions.

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Deitch (1978) may have best summarized this issue by stating:

> What is in store for enrollment? This question brings to mind the answer once given to the question, What will the stock market do? The answer – the only answer in which one can have great confidence – was, it will fluctuate. Obviously no one knows for sure what will happen to enrollment. The range of possibilities receiving serious attention contains enormous variation.

Despite the disagreement in enrollment projections, there is much more consensus regarding the financial crunch facing colleges and universities. Even in institutions with growing enrollments, costs are outstripping resources and budgets are falling further and further behind growth (Bowen, 1980). Few writers challenge the reality of future fiscal declines in higher education (Whetten, 1981b). Slowed economic growth, increasing energy costs, declines in productivity, inconsistent federal economic policies over time, and increasingly competitive world markets have led several authors to suggest that stability and decline are replacing growth as the prime characteristic of the nation's economy (Scott, 1979; Heilbronner, 1976; Daly, 1977). The management of conditions of decline, therefore, has become a major requirement of managers and administrators in most sectors of American organizations, especially in higher education.

Inhibitors to Managing Decline

Unfortunately, managers and administrators are not generally prepared to cope with, or to effectively manage, decline in most organizations and in higher education in particular. There are at least three reasons why. First, the *experience* of most administrators and managers has largely been in responding to conditions of growth. In higher education, abundant financial resources and steadily increasing enrollments made conditions of growth almost universal during the 1950's, 1960's and early 1970's. Expansions of physical plant and programs were typical. Boulding (1975, p. 8) suggested:

> Present educational administrators have grown up in the rapid growth (era) and have been selected presumably because they are well adjusted to growth and capable of dealing with it. Perhaps the most serious immediate problem facing education and especially higher education, is that many skills that were highly desirable during the last 30 years may no longer be needed in the next 30 years.
>
> One of education's first priorities, therefore, should be to develop a new generation of academic administrators who are skilled in the process of adjusting to decline. Yet we know so little about decline that we are not even sure what these skills are.

Second, the *values and ideology* of our culture emphasize growth and expansion as being indicative of effectiveness. Whetten (1980b) pointed out that large size is widely lauded as a desirable organizational characteristic in our culture. It enhances economies of scale, the ability to absorb the shocks accompanying environmental change, and productive capacity (Argenti, 1976; Kaufman, 1973; Perrow, 1979). Managers typically are evaluated positively if they produce more, obtain a larger budget, or expand their organizations. When the reverse occurs, negative evaluations normally result. Scott observed (1974, p. 247):

> What politican, public administrator or business executive in practice supports overtly to his constituents policies of economic contraction, reduction of agency services, or stabilization of sales volume and corporate earnings? How many university courses are offered in "How to Shrink a Business?" How frequently do articles appear in the professional literature about management strategies of organizational stability or decay? These things seldom happen because they reflect values that are foreign to American expectations and, thereby, are foreign to the mainstream of management thought and practice.

A third reason for the unpreparedness of administrators and managers in managing conditions of decline is that most current *organizational theory is based on assumptions of growth*. Decline is ignored. For example, the most widely accepted theory of organizations is contingency theory which is based on the notion that organizations are open systems. The more uncertainty and turbulence in the external environment, the more the organization should differentiate or complexify in order to adjust (Burns & Stalker, 1961; Lawrence & Lorsch, 1969). This is generally done by adding boundary spanners, new departments, additional information processing units, looser coupling, and so on. That is, by *growing*.

The organizational theories most likely to address issues of decline are the models of organizational life cycles. These are models that trace the development of organizations from their birth through their life histories. Most models hypothesize that identifiable stages occur in organizations as they develop. Yet, of the ten life-cycles models reviewed by Quinn and Cameron (1982), only one mentions organizational decline (Adizes, 1979). The others assume an unending pattern of *growth*.

Other examples could be cited, but the point is clear. Organizational researchers and theorists have based their perspectives of organizations on assumptions of growth, and decline has been either ignored as a phenomenon or treated as an unsuccessful aberration from the normal course of events.

Consequences of Decline in Higher Education

This emphasis on growth has led to some interesting consequences in higher education. These consequences are not universal by any means, but they are typical in a great many institutions. The consequences are that when faced with conditions of decline, administrators define these conditions as resource allocation problems or problems of efficiency, and they respond conservatively as opposed to innovatively. Boyd (1979, pp. 2-3) noted after reviewing several retrenchment case studies, for example, ". . . there is relatively little innovation being stimulated by the need to economize . . . educational organizations are basically doing less of the same." Rubin's (1979) study of five universities responding to declining resources confirmed this conservative pattern. Meeth (1974) suggested that the central concern of higher education has been how to provide quality education for less money by focusing on efficiency. Whetten (1981b) pointed out several examples of how administrators in higher education emphasize internal resource allocation aimed at operating more efficiently at the expense of longer term strategies for ensuring effectiveness.

The major point of this paper is that these orientations toward conservatism and efficiency may be deadly for colleges and universities. Not only are they contrary to the prescriptions of organizational theory for responding to decline (Starbuck, Gieve, Hedberg, 1978; Hedberg, Nystrom, & Starbuck, 1976; Whetten, 1980b, 1981a, b), but empirical evidence garnered from studies of private sector organizations indicates that the conservative, efficiency oriented coping patterns followed by many colleges and universities lead to ineffective performance and even organizational death.

The remainder of this paper discusses some reasons for administrators and managers in colleges and universities being conservative and efficiency oriented when faced with conditions of decline. Findings from two studies, one of colleges and universities and one of some private-sector firms facing decline, are presented to illustrate the differences in strategies present among these two groups. Finally, some suggestions are made for improving adaptation to decline in higher education organizations.

Efficiency versus Effectiveness

At the outset, it is important to differentiate between the concepts of efficiency and effectiveness. Efficiency is generally measured quite easily by computing the ratio of some output to some input (e.g., cost per student, cost per institutional unit). It is concerned with the internal processes of the organization, reducing waste or organizational "fat," and doing the same things with fewer resources. A concern with efficiency in an organization is largely a concern with resource allocation, or with better use of resources, as opposed to resource generation. "Doing things right" lies at the heart of the notion of efficiency.

Effectiveness, on the other hand, is not easily measured. It is a construct with no precise or agreed upon indicators (Cameron & Whetten, 1982). It is concerned at least as much with organization-environment relations as with internal processes (Pfeffer & Salancik, 1978), and with resource acquisition more than resource allocation (Yuchtman & Seashore, 1967). "Doing the right things" is more important than "doing things right." Effectiveness and efficiency are weakly related in many organizations, since it is possible to be effective without being efficient and vice versa.

Reasons for Efficiency Orientation and Conservatism

Administrators in colleges and universities tend to focus on efficiency at the expense of effectiveness when facing decline and respond conservatively rather than innovatively for at least seven reasons (Whetten, 1981b). First, organizational effectiveness has been extremely difficult to define, let alone measure, in higher education. Cameron (1980, 1981b) pointed out that the major models of effectiveness currently being used by researchers are not applicable to colleges and universities because of their characteristics as "organized anarchies" or "loosely coupled systems" (Cohen & March, 1974; Weick, 1976). Indicators of efficiency or subjective reputational ratings, therefore, are substituted for measures of effectiveness. And when the only identifiable indicators of success are efficiency measures, administrators naturally place a great deal of emphasis on them.

Second, the stress resulting from having to face conditions of decline leads to conservatism and self-protective behaviors (Whetten, 1980b; Bozeman & Slusher, 1979). A common side-effect of decline is personal stress among managers, and research has shown that the consequences of this decline-induced stress are (1) engaging in anxiety reducing behaviors at the expense of problem-solving behaviors, (2) reducing the risk of mistakes (which are more visible under conditions of decline) by becoming conservative, (3) restricting the communication network, (4) reducing the number of participants in decision making, (5) enforcing rules more closely, (6) rejecting disconfirming or contrary information more readily, (7) perceiving tasks and decisions to be more difficult, and (8) being prone to "groupthink" dynamics (Janis, 1971; Anderson, 1976; Hermann, 1963; Hall & Mansfield, 1971).

Third, there is a tendency to pursue strategies that were successful in times past — in conditions of abundance and growth — even though they are inappropriate under current conditions of decline (March & Simon, 1958; Huber, 1980). New problems are almost always interpreted in the framework of old problems, and old alternatives are tried first. In times of abundance and growth, the major concerns are related to resource allocation, not resource acquisition, so conditions of decline frequently are viewed as resource allocation problems as well. Because growth in higher education occurred despite the actions taken by administrators, non-aggressive, non-risky strategies generally are the first alternatives selected under conditions of decline as well. Boyd (1979) found, for example, that when administrators had experienced conditions of decline in the past, they were much more able and willing to manage current conditions of decline than were administrators who experienced only growth. This tendency toward non-aggressiveness and laissez-faire leadership for administrators is consistent with attribution theory which predicts that individuals tend to attribute successes to personal (internal) factors and failures to environmental (external) factors beyond their control. Conditions of decline, therefore, are often viewed as outside the organization's control, so responses are conservative.

Fourth, colleges and universities are frequently structured as loosely coupled systems, governed by committees and semi-autonomous subunits. They are similar to political organizations in having multiple constituencies to satisfy, each with vested interests, some of which are conflicting (Pfeffer, 1978). Multiple interest groups and semi-autonomous subunits make consensus on any decision unlikely, and resistance from some group to almost any strategy is guaranteed (Bardach, 1976). A consistent strategy for coping with decline is therefore difficult to develop, especially an innovative or risky strategy. Miles and Snow (1978) referred to these kinds of organizations – those without consistent strategies – as "reactors." Research has found them to be the least effective of all types of organizations (Snow & Hrebiniak, 1979). Because conflict is heightened under conditions of decline and scarcity (Whetten, 1981b), these multiple constituency perspectives are even more adamantly defended, so administrators are prone towards "satisficing" and conservative strategies to ameliorate the conflicts.

Fifth, what is measured attracts attention. Because efficiency is easily measured and effectiveness is difficult to measure, efficiency is given more attention by administrators. Most institutions have budget (efficiency) monitoring devices in place, but few have any mechanisms to monitor effectiveness. And marketing research has found that when individuals cannot judge something on the basis of its primary characteristics (e.g., how well soap gets out dirt), they make judgments on the basis of secondary characteristics (e.g., the color of the box) (Whetten, 1981b). Indicators of efficiency (secondary characteristics) are therefore substituted for indicators of effectiveness (primary characteristics) (Pfeffer & Salancik, 1978).

Sixth, many competent, innovative leaders have learned to "skate fast over thin ice" (Ritti & Funkhauser, 1977; Levine, 1979). That is, the most creative and most innovative individuals are frequently the first to leave an organization when decline occurs (Downs, 1967; Hirschman, 1970). Not only does decline produce stress and discomfort, but these individuals are the most likely to have job opportunities in other organizations. Therefore, administrators left to manage decline tend to "play it safe," or to avoid upsetting the apple cart with risky strategies. The emphasis is one minimizing the regret of staying in the organization for organizational participants.

Seventh, innovation is often viewed as a cause of decline (Shils, 1974). When resources were prevalent and rapid growth was the norm, many institutions experimented and expanded to the point that their programs and physical plant facilities are now difficult to maintain. They produce a financial burden on many institutions facing conditions of decline. The natural response, therefore, is not only to eliminate non-traditional and innovative programs but to avoid instituting any more innovative or creative alternatives. Institutions therefore become more conservative.

Research on College and University Decline

These tendencies for administrators to respond to decline with conservatism and an efficiency orientation are illustrated by a study of 40 institutions of higher education in the northeast United States (Cameron, 1981a).[2] A questionnaire was mailed to 2147 faculty department heads and administrators in the 40 colleges and universities to assess perceptions of organizational structure and the environment, strategic emphases of administrators, organizational goal preferences, and organizational effectiveness. Usable returns were received from 1294 individuals (60.2 percent) categorized as general administrators (e.g., presidents), academic administrators (e.g., provosts), financial administrators (e.g., business vice presidents), student affairs administrators (e.g., deans of students) and faculty department heads (e.g., chairperson of Psychology). Six hundred respondents were faculty members, and 694 were administrators. The institutions ranged in age from 12 years to 212 years. Sixteen were state schools, 18 were private-secular, and six were private-religious.

Of particular interest in the study were patterns of enrollment growth or decline. Enrollment growth among the institutions ranged from -20 to +150 percent over a six-year period – 1970-1976. A six-year period was used rather than a shorter time frame because structure and strategic emphasis change would not likely be observed if decline were experienced for only a year or two (Ford, 1980a). But when enrollments decline (or grow) each year for six years, changes would be expected to occur in the factors under investigation.

Following the procedure used by Hannan and Freeman (1978) to define organizational growth and organizational decline, the 40 institutions were grouped into four categories based on their patterns of growth/decline over the six-year period. Group 1 consisted of two institutions which declined in enrollment each year of the study period. Their average decline was -13 percent. They were labelled *declining* institutions. Group 2 consisted of 13 *stable* institutions which experienced slight growth in some years, slight decline in others, and no growth or decline in still others. Their enrollments were largely stable over the study period. Group 3 was labelled *moderately growing* institutions and consisted of 15 schools which increased in enrollment each year, with an average growth of 20 percent. Finally, Group 4 consisted of ten schools which grew dramatically over the years of the study period averaging 40 percent growth in enrollments. They were called *rapidly growing* institutions.

Using ANOVA and multiple discriminant analysis procedures, significant differences were found among the groups of institutions based on their growth/decline patterns. What is relevant here are the differences between the declining institutions and the others (many of the significant differences also were typical of the stable institutions as well, but the differences were not always statistically significant). Colleges and universities experiencing decline had significantly more standardized structures – they relied on past, conservative practices – the external environment was perceived as being lean in resources, and organizational effectiveness (using Cameron's [1978] instrument) was low in the core academic domain and in the morale domain. Declining institutions had high effectiveness in dealing with internal organizational concerns, however (e.g., efficiency). Goals related to academic domain effectiveness were not highly valued in these institutions. The most significant differences, however, occurred in the strategic emphases of top administrators. In declining institutions, administrators emphasized finances and budgeting and fund raising. Very little emphasis was given to interaction with external constituencies through public relations or public service. Administrators in growing institutions emphasized just the opposite – high emphasis on public relations and service, low emphasis on finances and budgeting.

While the study represents a limited sample of schools and must be classed as exploratory, the results nevertheless confirm the notion that administrators in declining institutions tend to respond with conservatism and an efficiency emphasis significantly more than do administrators in growing organizations. Hedenberg, Nystrom, and Starbuck (1976), Weick (1977), and others have suggested that "self designing" characteristics such as innovation, fluidity, and adaptability to external environments are appropriate prescriptions for institutions facing conditions of decline. Unfortunately, this study's results suggest that administrators in declining colleges and universities behave in ways opposite to these prescriptions. That is, they focus on internal resource allocation problems (budgeting and finance), they rely on past policies and practices (standardization), and they do not value organizational goals in the critical academic domain which lies at the center of college and university output.

Administrator behavior in these declining organizations may actually perpetuate the decline by eliminating the possibility of expanding resource bases through proactive environmental contacting (e.g., public relations work), by relying on standardized procedures that were successful in past (outdated?) circumstances, and by driving out self-designing characteristics.

Research on Decline in the Private Sector

Given these tendencies among college and university administrators, are there alternatives for managing decline in a way that more clearly matches the prescriptions? Do examples exist of organizations that have managed decline differently? The answer to both questions is yes, and a study by Miles and Cameron (1982) illustrates this response. While this study focused on private sector organizations, some lessons may be learned by administrators and managers in higher education from the responses of these private sector managers that are applicable to education's current circumstances.

This study investigated the U.S. tobacco industry from 1950 to 1979 and sought to answer the question, "How is it that the U.S. tobacco firms have been so successful over time in spite of facing conditions of decline?" Few private sector industries have faced a more hostile external environment over the last 30 years than has the tobacco industry. Some of the findings that have applicability to higher education are explained below.

The U.S. tobacco industry consists of six firms which produce 99 percent of all domestic cigarettes. Each of the firms enjoyed constant and consistent growth from 1906 (when many of the firms were created by a trust bust) through 1953. In 1954, however, environmental threats created the first conditions of decline for the industry. A Sloan Kettering report linking smoking to cancer and a lead article in the *Reader's Digest* on the health hazards of smoking brought public attention to the issue and caused consumption and sales patterns to decline for the first time. Thereafter, the Surgeon General's report in 1964, the formation of several federal and state commissions with the express mandate to abolish smoking (e.g., Action on Smoking and Health), mandated health warnings on all packages and in all advertising in 1965, the advertising ban of cigarettes from all radio and television in 1969, large state and community tax increases on tobacco amounting to at least half the price of a pack of cigarettes, and ambient smoke legislation passed in a large number of states outlawing smoking in public transportation and in public buildings served to create a hostile and turbulent environment for the tobacco firms. The environment was somewhat more severe but not unlike that faced by higher education institutions today. Declining enrollments, higher costs, questioning of the value of higher education for job success, more federal regulation coupled with less federal financial support, and so on, all produce an environment conducive to conditions of decline for colleges and universities. The tobacco firms, however, responded much differently than appears to be the case in higher education. Questions of efficiency were never a significant part of their organizational strategies, and a conservative orientation would probably have proven fatal. Instead, three major strategies for coping with conditions of decline were implemented.

First, the firms engaged in *domain defense* strategies. These were strategies designed to preserve the legitimacy of the core domain of the industry. These strategies took the form of joint ventures among the firms such as an industry lobbying group and a government liaison office. Large amounts of money were donated in support of tobacco and health research, senators in states highly dependent on tobacco production were mobilized, publicity campaigns pointing out the favorable balance of payments resulting from activities by the tobacco firms occurred, and self-initiated advertising controls were implemented.[3] The result was that the core domain of the tobacco firms became somewhat buffered from environmental conditions (so that they didn't have to respond to each new crisis or attack), and most importantly, the firms bought themselves time to determine more long-range, proactive strategies to strengthen the industry.

Their success in defending their domains made it possible for firms then to engage in *domain offense* strategies. Domain offense strategies are designed to expand the domain of the organization. As with domain defense strategies, they are proactive strategies aimed at doing the right things (effectiveness) rather than doing things right (efficiency). The tobacco firms implemented domain offense strategies by expanding their products (i.e., filter cigarettes, low-tar cigarettes, women's cigarettes, macho cigarettes), segmenting their markets, focusing on overseas markets, and so on. Rather than focusing on how they could produce their products more efficiently, they concentrated on effectiveness questions instead -- what were the best products to produce? And rather than being conservative or reactive in orientation, they were proactive, even aggressive, in pursuing effectiveness strategies.

Their success in domain offense strategies created the resources necessary to engage next in *domain creation* strategies. The goal of domain creation strategies is to add related domains, to diversify, or to spread the risk. In every case, the most successful domain creation strategies occurred in areas where the firms already had some knowledge or expertise (e.g., consumer products). But it is important to keep in mind that the firms determined to engage in entirely new activities, even under conditions of decline. Among the most successful domain creation strategies engaged in was diversification through the acquisition of other firms such as Miller Brewery, 7-Up, Del Monte foods, Gimbel's , Kohls, and Saks Fifth Avenue stores, AMF sporting goods company, and so on.

The most effective tobacco firms over the 30-year period were those that acted proactively as opposed to being reactive in dealing with conditions of decline and those that concentrated almost entirely on enhancing organizational effectiveness as opposed to organizational efficiency. Effective firms also paid particular attention to adapting to and manipulating the external environment rather than focusing mainly on internal processes and procedures. In other words, the most successful firms did almost the opposite of what many colleges and universities are doing when faced with conditions of decline. Colleges and universities are often conservative, efficiency oriented, and internally focused. Tobacco firms were innovative, effectiveness oriented, and externally focused.

Applicability of Private-Sector Findings to Higher Education

Of course, the conditions faced by colleges and universities are not identical to those faced by the tobacco firms, and the differences in organizational type can make important differences in appropriate responses to conditions of decline. On the other hand, the domain strategies identified by Miles and Cameron (1982) for the tobacco firms appear to have applicability across organizational types and specific environmental conditions. And institutions of higher education may benefit by re-thinking their approaches to conditions of decline on that basis.

For example, activating support groups such as alumni, forming lobbying organizations, or acquiring increased operating autonomy from state legislature (Gillis, 1981) are examples of some possible domain defense strategies. Domain offense may include the expansion of current markets or student groups, using current resources to engage in extra non-traditional activities (e.g., management development, re-certification programs, second language training), or cultivating alternative revenue sources. Domain creation strategies, which should be considered only after defense and offense strategies have been implemented, might include new course or program offerings in high demand areas, acquiring revenue generating subsidiaries, or capital investment. In considering alternatives, the following factors must be considered before determining the best coping strategies. Each of these factors can be particularly important in determining what type of response is appropriate and how much resistance will be encountered.[4] Factors external to the organization are listed first, followed by factors within the institution. The purpose for enumerating them here is to help administrators identify what factors to monitor when determining adaptive strategies.

External Factors

1. Lead time, or the amount of advanced warning time the organization has before the conditions of decline are experienced. Less lead time creates pressures for conservative strategies.

2. Clarity of the problems faced, or the extent to which the causes of the decline can be pinpointed. Less problem clarity creates pressures for conservative strategies.
3. Consensus of external constituencies, or the extent to which important groups outside the organization all agree on a position detrimental to the organization. The more consensus among external constituencies that is contrary to the organization's goals, the more pressure for conservative strategies.
4. Domain choice flexibility, or the amount of freedom an organization has to add or substitute a new domain of activities, rather than having its total domain mandated. The less domain choice flexibility, the more pressure for conservative strategies.
5. Political slack, or the loyalty to the organization of some powerful constituency (e.g., resource provider). The less political slack, the more pressure for conservative strategies.
6. Severity of the threat, or the extent to which the conditions of decline are likely to produce a serious threat or a minor threat. The less severe the threat, the more pressure for conservative strategies.
7. Duration of the threat, or whether the declining conditions last a long time as opposed to being temporary. The shorter the duration, the more pressure to conservatively wait it out.
8. Source of threat, or whether the factors contributing to conditions of decline are close to the organization and therefore controllable or manageable by it, rather than being in the uncontrollable second-order environment. The less the organization's ability to control the threat, the more pressure for conservative strategies.

Internal Factors

9. Economic slack, or the amount of savings and uncommitted resources plus the diversity of places from which resources come. The less economic slack, the more pressure for conservative strategies.
10. Previous experience of administrators, or the extent to which strategic decision makers have had experience with patterns of stability or decline in the past. The less previous experience with decline, the more pressure for conservative strategies.
11. Internal distribution of resources, or whether there is a norm of equal or unequal dissemination of resources across the subunits of the organization. Equal distribution norms create pressure for conservative strategies such as across-the-board cuts.
12. Resource dependence of subunits, or the extent to which subunits are all dependent on one source for their support. The more dependence on one source, the more pressure for competition among units and conservative strategies aimed at satisficing.
13. Traditional role of administrators, or the extent to which administrators are viewed in the organization as resource acquirers or as

resource allocators. The less administrators are seen as resource acquirers, the more pressure for conservative strategies.

14. Strategic competence of the institutions, or the extent to which the organization has the strategic competence to innovate as opposed to react, or to defend as opposed to recoil. An absence of a strategic competence leads to pressure for conservative strategies.
15. Size and complexity of the institutions. The larger and more complex the organization, the more pressure for conservative strategies because of the multiple vested interest groups and their negotiated trade-offs.

Conclusion

The major point being made in this paper is that many administrators and managers in colleges and universities are responding to conditions of decline by being conservative and efficiency oriented. A number of factors which create pressure to respond in this way have been enumerated. Those orientations, however, have proven detrimental to organizational effectiveness over the long term in other organizations in the private sector. It may be time for managers and administrators in higher education to begin thinking seriously about refocusing their attention. Domain defense, offense, and creation strategies which focus on effectiveness, innovation, and the external environment are one alternative framework for administrators to use as they consider how to cope with conditions of decline. These strategies are available to most institutions, and they appear to be more appropriate for declining conditions than the current emphasis being given by administrators and managers in many institutions of higher education.

FOOTNOTES

[1] Conditions of decline are a product of the external environment in which colleges and universities exist. These conditions may arise from enrollment trends, financial exigencies, unexpected disasters, and so on. An institution existing in conditions of decline will not necessarily undergo a decline itself, depending on how the conditions are managed.

[2] Complete details of the study and its findings are available from the author.

[3] It is ironic that the tobacco firms would be the largest supporter of tobacco and health research since that research is largely damaging to the industry. However, when tobacco firms fund the research, not only are they the first to know the results (sometimes by several years), but they become the most informed. When congressional hearings are held, for example, representatives of tobacco firms have to be invited to testify.

[4] These factors are explained in more detail in Miles and Cameron (1982) and in Whetten (1980a).

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CHAPTER 8

On the Uses of Adversity in Higher Education

Aaron Wildavsky

> Sweet are the uses of adversity,
> which like the toad, ugly and
> venomous, wears yet a precious
> jewel in his head.
> – from "As You Like It"
> – William Shakespeare

You are I, we are not the poor, we are not the insulted, we are not the injured. Society owes us nothing whatsoever. We have no special claim on the sympathies of the public. I say this in order to clear the air, lest one thinks, especially faculty members and administrators, that they have some God-given mission to higher education. My purpose is to suggest that risk is opportunity, that just as there have been advantages on the way up, there are, if not equivalent, at least comparable advantages on the way down. If small is beautiful, then we are all going to have an opportunity to pretty ourselves up a bit.

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Mary Douglas says that there are four decisive arguments in human relations: there is no time, it is unnatural, God prohibits it, and there is no money. The last one of these is available today for those who wish to be decisive with a purpose.

The way to enter the subject is not with itself, but by taking cognizance of larger trends in which all are implicated, so we will understand better how we got where we are. And then I will turn to a number of actual suggestions for handling long-time problems, about which everyone swears nothing can be done, that are now up for resolution and solution.

We are not alone. Bureaucrats and experts are on the defensive everywhere. If we would go to the classic work of Max Weber and ask what are the essential characteristics of a bureaucracy, of a hierarchy, there would be two: a monopoly of expertise and permanent tenure.

A monopoly of expertise, as we know, is long gone; but as early as 25 years ago, most of the expertise about large institutions resided in them. Most of the experts in higher education were in it. But this is not true anymore. In regard to policy analysis, there are rival teams of analysts who have been in the government, who claim to know as much as anybody who is doing the job now. If you are in highways, if you are in welfare, if you are in health or medicine, you know that the people who used to occupy that position are hiding in universities or think tanks or in state or local government or in special institutes – and that they are ready to challenge anything and everything.

On the one hand, society benefits because it has multiple sources of information. On the other hand, the incumbent does not benefit because there are so many smart people out there, people just like us, ready to take his or her place. Tenure, as you know, is being challenged. After all, tenure inheres in organizations; if they go, it goes. It is not merely that the monopoly of expertise has been lost and that tenure has been weakened but that the knowledge base on which any hierarchy has to stake its claim has become contested.

I want to be clear here. It is not true, I believe, that you and I are dumber than the people we replaced or that the poeple who preceded us were smarter than we are. Once I told somebody in retrospect that the social programs in the 1930's seemed so much better than the ones of the 60's. He put me down right away, and properly, by saying, "Yes, that's because we didn't have evaluation then."

The truth of the matter is that our knowledge grows incrementally; we are that much better educated, that much more competent; we have marginally that much better tools than the people who preceded us, but what we need to know has increased exponentially. If you think of big government as having large numbers of large programs, like spheres in this ballroom, the larger the number of programs, the more they are likely to collide, the more they are likely to bounce off one another, the more remote, the more varied, the more indirect the consequences, the more difficult to predict what is going to happen. It is not only that people know that government cannot do everything, that it cannot really reduce crime rates, that it does not improve your health very much, or even that education will not make you free, really. It is that the pace of growth has outstripped our capacity to comprehend. As new programs bounce off old ones, the consequences are more numerous, diverse, indirect, and remote than they were before. So it is perhaps not wholly unfortunate that at this point in time our society is trying to reassess what it is doing.

If we look at the social side of what has happened, we see that all major American institutions that are hierarchical and that are integrated – in that sense of trying to combine views on a large number of issues across the spectrum – are weaker.

The presidency is weaker. Don't you remember that time – you're old enough – when we fought out questions of whether presidents should have more than two terms? Ever since, we have been trying to find presidents who would serve more than one.

It is not only that our political parties have grown weaker but that we have done things deliberately to weaken them. Any textbook will tell you the main function of a party is to nominate candidates for office. If we proliferate primaries so that parties have no real opportunity to nominate candidates, is it any wonder that parties are weak? In the name of participation, we have national nominating conventions in which the result is ordained before they start. Citizens say, "What a ghastly choice!" Supporters say, "We have the world's most democratic system." Like, look Ma, no hands, no deliberation, no discussion, just an automatic vote, all in the name of direct democracy.

What lies behind this weakening of government is a desire to have organizations without authority. What are the consequences? If you ask people, "How do you like your representative?," they love them! Eighty-five percent of Americans think their representatives are super. "How do you like Congress?," "Terrible place!" Ask the legislators themselves – "Are you more effective than you were before?" "Yes." "Are you more respected, are you on more committees, do you have a larger staff, are you of greater importance?" "Yes." "Is Congress more important?" "No." "How do you like dealing with your constituents?" "Wonderful." "How do you like Congress?" "Don't." If you ask on the budget side, do the individuals like the major higher income programs of government spending, most of them like most of these programs by a large majority. Do they like the totals to which these programs add up? No, they do not.

So far, we have two trends: one is that bureaucracy and expertise are on the defensive, and the other is that major integrated institutions – churches, parties, unions – are all in decline. This is the empirical pattern: the parts and the whole are out of whack. There is a disjunction between what we do in our individual capacities and the collective consequences to which they add up. Nowhere is this more evident than in regard to spending.

The question of public spending is "Why does it keep going up?," not only up absolutely, but, since the Second World War, going up and up in proportion to the gross national product. There are two conspiracy theories, of course: the one on the left and the one on the right. The one on the left is called false consciousness, and the one on the right is called fiscal illusion. Fiscal illusion says that the people don't know the taxes they pay. In particular, perhaps, in general, I doubt it.

Now, false consciousness is harder to get at because it claims that we don't see our interests correctly. In one sense I believe this entirely; who sees their interests correctly? Who wouldn't change lots of things that they had done with better understanding? What I object to is not rejection of my claim that I know my own interests but that there are others who know my interests better than I do.

If you want to reject conspiracy theories, including the idiot party that supports the notion that bureaucrats only work for each other and there is nothing in it to gain for society, how can we explain the growth in public spending? We can explain it by referring to what I have called the "Pogo Principle" – you remember that comical character and the famous phrase of the Vietnam War to the effect that "I have seen the enemy and they is us."

The reason government spending goes on the way it does is precisely because we the people want it. This is still a democracy. If people really object to the level of spending of these programs, what, over a period of years, has kept them from doing something about it?

Imagine that the theory of logrolling were extended to citizens. I want this, and you want that: How are we going to get together? One way is to fight. Why would we want to do that; we're such nice people? Why not add our proposals together? If everybody does this, an interesting dilemma occurs: everybody's terribly happy about each transaction; it is only the collective consequences that appear disastrous.

I call this budgeting by addition rather than by subtraction. Basically, for the last thirty years, requests have more or less been added together. The total is paid for by rising national income, when it was rising; by driving down defense (until last year, defense was the same in constant dollars as in 1955 and social welfare increased over two times); by inflation; by printing money; by higher taxes. Why need such nice people quarrel when they can pass on their costs to others?

Suppose we want to increase spending. There are two ways to do that: either mandate higher spending here and it will go up, or go to sleep, play Rip Van Winkle, and it will go up too. What are your costs of coordination? Zero. What are your costs of information? Zero.

Suppose you want spending to go down. If you are to do it on what we consider an intelligent item-by-item basis, not an irrational course of cutting across-the-board, you have to know about multitudes of programs. The cost of information is enormous. So is the cost of coordination. Why? Expenditure limitation is not worthwhile for anyone, unless everyone has to do it. There are only two people in the world who are for the public interest: you and I. The others are for their nasty private interests. And the public spirited people get together and say, "We're going to cut our budgets 50 percent." What happens? Everybody else says, there is more gravy, and they dip their hands in. What is the end result? The society is no better off; spending is exactly the same. So what is the point in sacrifice? Now, if everybody had to do it together, so that you knew that everybody else was cut, then you might imagine that there would be some benefits from this vast reduction.

What are we going to do about it? At the federal level, there are efforts to introduce constitutional spending limits or to have Congress itself establish binding celings. How much? I'll not talk about them here. Basically, what they suggest is that government spending on the federal level be limited to the increased growth of the national product. The idea is to put up a ceiling so that everybody has to sacrifice. More for one means less for another.

What is important here is not to debate that question, which is not my topic, but to show that a constitutional difficulty is now receiving a constitutional discussion. The problem is not merely that you and I differ or that we don't like the outcome in one area or another, but across the board of public policy and across the board of our institutions, people find that their individual actions, however appropriate in their context, do not add up to desirable collective results.

Given that we are passing through a period not only of fiscal stringency but a period in which grave constitutional questions are being raised about the ability of our institutions to offer adequate responses, what should our institutions of higher education do? I discovered in teaching courses, that at whatever level, graduate or freshman, when asked to discuss the basis of influence or power or control in society, knowledge is the last thing the students ever think of. Yet universities ought to be knowledge-creating and knowledge-testing institutions "par excellence."

If universities take the view that they are hopeless, and helpless, that on the one hand they are deserving special privilege, that they have a special call on the public conscience, and on the other hand that it is quite impossible for them to give up anything because everything they do is simply of the utmost priority, not only for themselves but for society, they will become not the solution but the paradigm of the problem. Therefore, I think those of us in higher education have some special responsibility to ourselves to take a more skeptical view of the subject.

First, a little bit of hope, or at least an exercise in trying to make the situation not appear worse than it is. I call it the retrospective method. Ask how much money your institution is going to have next year; then ask when was the last time you had that much money. You will discover that it was two or three or four years ago, not thirty or twenty or even ten years ago. By a great creative act of will, you will imagine that your university stood, and you survived when you were that small before.

My main purpose is to bring up five areas in which we can convert obstacles into opportunities. You will all think of many more, because you have more experience than I in this matter. How many years before coming here did you talk with your friends and say, "If only I could do this?" and "If only we could do that?" Your answer was that everybody was perfectly comfortable the way they were. There were so many vested interests; this institute was growing, and that one has more grants, and the third one was subsidized by the government. How can we get them out of their appointed paths?

This exercise in recall enables us to ask, "What is it we used to want?" What is it that we would have liked to change in quality if not in quantity?

A question on which there is endless complaint in universities is that relations between administration and faculty are estranged. There has been an enormous growth in administration, phalanx among phalanx, layer upon layer; the space people don't care about the substance of what you do; the personnel people don't care about who you need; the listing of complaints goes on and on. There is "bitching and backbiting," but nothing ever happens. Now, in this period of stringency, I suspect we will begin to see signs of the interpenetration of faculty and administration. On what grounds? On the grounds of one of life's conclusive rationales: there is no money, the ground that is always so powerful, the ground of necessity. With a smaller administration, joint faculty-administrative units are just on the horizon. If you bring the faculty people in, they are going to say, "Who the hell wants to do all this." And if you bring the administrative people in, they don't want to hear about nit-picking faculty complaints. There is now an opportunity to restructure these relationships; if things get better financially, you will not have this opportunity again.

Next I am going to deal with two professional schools, medical schools and schools of public policy and policy analysis. There are too many medical schools, and they are too expensive. Everybody knows this, and nobody can do anything about it. But you can do something about it. If you cannot, it is because you have too much money, you are not hurting enough, you are not bleeding enough; it is only a sign that you have lots more to give. Take my beloved state of California. If we put up fences around the state to keep doctors out, they would burrow their way in. Moreover, when you wean them off the public purse, those people can find work. What claims do they have on citizen sympathy in terms of lack of opportunity?

A lot could be done in many states where they have excess hospitals; I don't mean that it is easy, and I think I do understand as a life-long political scientist the political connections of doctors, the prestige involved, and all the rest of it. While the time is right, while stringency is severe, we ought to act to change the programs we would have liked to abandon or scale down long ago.

Now for a microanalysis closer to home: professional schools and policy analysis. I think, prejudiced as I am, that schools of public policy have been one of the better developments in the last number of years. From a cost-effectiveness point of view, the schools are very effective; but they are also very costly. By effective I mean everybody is working; the schools have high status in the universities and high status with employers. By costly, I mean that the price per pupil of this intensive education is comparatively high.

The problem is that across the spectrum of professional schools, there is a lot of dissatisfaction. They are not good enough to be in universities, many of them, and they do not provide good enough professional training to serve external clientele. Schools of criminology, of welfare, of education, on and on, are in trouble.

If there are creative deans and vice chancellors around, the crisis of the professional school also provides an opportunity. The problem is lack of knowledge; some schools don't know enough to devote an entire curriculum to teaching their students. What might be done? The university would establish a general school of advanced and applied social sciences. It would offer a general form of analytic education. The core program would consist of policy analysis applied to whatever subject matter speciality students were interested in. Specific "area study" elements would be cut down; students would take a year-long required course in whatever educators, welfare people, criminologists think they have to tell them. Of course, there would would be internships for on-the-job training. Thus we could train large numbers of students at less cost and at the same time improve the quality of education.

Universities should take learning seriously. Institutions of higher education do less evaluation than any other kind of place I know. There are elementary schools that do a lot more of it. What do we really know about what anybody learns in higher education? Oh, we know something about the subject matter taught, but how effective are various modes of teaching at the university level? We know the input, but what of the output? We could say, go to Stanford, a business degree is worth so many thousands of dollars a year for the first job. But that doesn't tell us anything about what a student learns.

Given the experiences of the last quarter-century, I think it is time to move away from pathology and towards help, that is, from concern with people who cannot learn, to concern with those who are not supposed to learn but actually do. There is at least some work going on to get at the good teachers, to get at the good principals, to start modeling how good learning takes place.

I see two developments: one, a resurrection of schools of education as centers of learning about learning, and, two, efforts to measure learning in various courses. For example, we might see if, in a certain elementary course, computer-assisted instruction might not do quite as well or better than you or I – Who knows? It's all rumor. Now we have some people come around and give the professor a form and the students a form. I used that service and learned from it. We get evaluated essentially because we want to. But it is not the same as measuring the content of what students know, before and after.

What do students know six months later, a year later, two years later? If there is no retention, why are we doing this? These are very serious issues, which go to the heart of the enterprise, that are rarely discussed because people are too polite; it's too threatening. Just like social psychologists rarely mention the relationship between attitude and action – lest we discover that the relationship is so poor as to call into question the basic method of the enterprise, so, too, the last subject of study in the academy is learning. Those of you who have rage in your hearts, who are revolutionaries deep down inside, may save up for this one.

It is possible, finally, that a severe enough period of financial stringency could lead to a somewhat greater emphasis in universities on the creation, rather than the distribution of wealth. Very few resources in the university are concerned with the question of wealth creation.

We have a remarkable phenomenon in our churches today. They identify with those people who have less of the goods of this world than others. Their concern is redistribution, as if the wealth were already there. The churches think it comes from heaven. They must know wealth is there because they see it on television. But from what they put out, you would assume that no country in the world has any difficulty raising their standard of living. The only "real" problems apparently involve taking something from some people and giving it to others.

If, as I suspect, numerous states and the federal government enact fairly stringent measures to limit public spending to the increase of the size of the economy, we are going to see a change. Instead of spokesmen for poor people talking to someone, saying, "Why don't you act like a social worker; why don't you pat kids on the head; why don't you give out toys at Christmas?," they are going to stop this nonsense and are going to say, "Get off your butts; go out to work and produce. If you don't produce, we can't distribute." Fiscal stringency may connect distribution with production. And thus, we may get a greater balance to this country, between a concern for production, from which, after all, independence comes, and a concern for distribution.

On the campus, in the business schools, we will also have to change, because, basically, they train you how to make it into corporations, how to read the entrails of corporate accounts. They do not really talk about the creation of wealth, because like the other schools, they assume it is already there.

Universities, through a period of fiscal stringency, may come to realize their dependence on general economic progress in society and, therefore, behave accordingly.

My message is twofold: one is that our joint difficulties are part-and-parcel of trends in society. The denigration of expertise, the disintegration of hierarchical authority, the endless cacophony of criticism of established institutions, we share with many others. The second part of the message is that as centers of learning with essential responsibility for creating and testing new knowledge, we, above all, must try to make use of this new period, not with hurrahs and hallelujahs but with intelligence and insight so that we can take advantage of the real possibilities for change that exist in a period of declining financial resources.

Your own university is probably different. It may be subject to a lot or a little financial stringency. Parts of it may still be affluent while others are poorer. As a general rule, the worse the stringency, the better the disposition to seek analysis (even taking old ones off the shelf) and do something about it. Organizations have to be below the level required to keep past activities going before they will consider politically painful alternatives. For many purposes, there may be too much stringency; for encouraging radical reform (or abolition) of programs believed to be bad, stringency may be too small.

PART V

TACTICAL RESPONSES TO FISCAL STRESS

CHAPTER 9

A Changing Environment for Students and Families

Melvin D. Orwig
Robert J. Rustad

A little more than ten years ago, there was a heated debate about the appropriate role for the federal government in financing higher education. Many had concluded that higher education was facing a serious crisis. It was, however, a different kind of crisis and of a different magnitude than that which confronts us today. Ten years ago, the major concern was not how or whether to sustain the federal commitment to higher education; rather, the concern was how to make the opportunity for higher education universally available by removing financial barriers as an obstacle to postsecondary education. Concern about constantly increasing per student costs for higher education and recognition of a range of competing claims on federal and state tax revenue led economists, educators, and politicians to develop a variety of proposals to deal with the problems of financing higher education during the decade of the 70's.

Central to the debate was the question of whether the federal government should provide direct aid to institutions to enable them to keep their tuitions low or whether the federal government should concentrate their efforts on providing financial assistance to those students who needed it. Concepts of equity and efficiency, private versus public returns, and personal versus social benefits became part of the politician's, educator's, and researcher's lexicon.

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We all know how that debate was resolved. The scales tipped toward student aid, and a massive infusion of federal and state dollars resulted for student assistance programs. The most dramatic increase, both in absolute dollars and in relative growth, occurred at the federal level. Federal investment in student aid increased from $1.32 billion in fiscal year 1973 to more than $5.03 billion in 1980, almost a four-fold increase in eight years.

During this same time period, investment in student aid increased at the state level also. State appropriations for scholarship-and-grant programs grew from almost $200 million to over $850 million in 1980, a three-fold increase. Between 1970 and 1978, state appropriations for need-based scholarships increased, as a percent of state and local appropriations for current fiscal revenues, from 3.05 to 4.47 percent – indicating an increased priority for student aid at the state level. Clearly, student financial aid was a high priority at both the federal and state levels during the 1970's.

The increase in student aid at the federal level was accomplished through two different but complementary methods. One method, best represented by the Basic Educational Opportunity Grant Program (now called Pell Grants), attempted to provide equal access to postsecondary education through an income equalization scheme. This was accomplished through a mjaor federal commitment to need-based student assistance. Indeed, the BEOG Program was heralded by then President Nixon with the following ambitious pronouncement: "No qualified student who wants to go to college should be barred by lack of money. That has long been a great American goal; I propose that we achieve it now."[1]

The other method, though not dominant in the early years of the decade, was the Guaranteed Student Loan Program. This program served four purposes: one, to enable students to assume personal financial responsibility for their own postsecondary education expenses; two, to provide a liquidity mechanism that enabled families and/or students to translate future income into resources needed in the present to pay for the cost of postsecondary education; three, to provide access to additional resources that enabled students to exercise choice among different higher education choices; and four, to leverage federal investment to achieve a substantial infusion of private capital to support postsecondary education (estimated to be over $8 billion in 1982).

Each of these methods attempted to achieve a common purpose: assuring access to postsecondary education by eliminating financial barriers to attendance.

Anyone who is a student of higher education finance must be wary of asserting cause and effect relationships. Methodological problems, combined

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with severe data limitations, have significantly constrained definitive research findings. Nonetheless, during the 70's several enrollment trends are noteworthy.

During the decade, enrollment increased from 8.6 million to over 12.0 million – a 40 percent increase. Enrollment grew in all but two years during the 70's (1976 and 1977). This discontinuity is attributable to a decrease in the participation of males, because the participation of females in absolute numbers and relative participation grew throughout the decade – increasing by over 70 percent. Of equal importance was the increased participation of low-income and minority students. Overall, enrollment as a percentage of the 18-24 year old cohort increased, though there is evidence that it is beginning to stabilize.

Though tuition (price) increased in current dollars during the 70's, when measured in constant dollars, tuition declined. During the same time period the average net price (tuition minus need-based aid) decreased at a much faster rate, by 23 percent in seven years. This decrease in net price, of course, reflects the great increase in student aid that occurred during the decade.

Another factor of major significance during the decade that must be mentioned is MISAA – The Middle-Income Student Assistance Act. Today, MISAA is most remembered for the cost increase (due primarily, it must be mentioned, to unanticipated high interest rates that have been sustained over several years) that has been experienced in the federal budget. Yet the context of MISAA is frequently forgotten.

Preceding the passage of MISAA, political pressures, real or imagined, from "middle-income" families were effectively used by interests representing higher cost institutions to generate a sustained effort to develop a tuition tax credit program. In 1978, the year MISAA was passed, the choice was between a tuition tax credit program, variously estimated to cost from $4 to $6 billion annually, or aid to middle-income students. Though MISAA has been expensive, it has not yet approached the annual cost of a tuition tax credit program.

When measured against its intended purpose, few would deny that the changes introduced by MISAA were successful. By making BEOG grants available to higher-income families and by extending the interest subsidy to all student borrowers under the GSLP, student assistance was provided to a broader distribution of income levels, which was the intent of MISAA.

As the decade of the 70's came to an end, conditions began to change. After ten years of sustained commitment to student aid, the last two years were characterized by doubts about the costs of that commitment, confusion within the Carter Administration about what might be done to modify student-aid programs, and a variety of last minute legislative compromises designed to satisfy contending and conflicting political pressures. The confusion and the effects of the confusion have continued under the new administration. The lack of administrative leadership, however, did not. We are left to wonder which is more damaging: legislative compromise born of administrative confusion or legislative confusion deriving from attempts to countermand ill-conceived administrative policy.

Changes at the Federal Level

Let us consider the monumental change that has occurred in the last eight months by recalling the questions of Larry Gladieux this spring as he analyzed federal student-aid programs. In April, he asked the following:

1. As college costs rise, will federal student aid keep up or will the states have to spend more to maintain current levels of real assistance?

2. Will federal policy-makers continue and/or expand their aid to middle-income students?

3. If federal spending cuts are made, will low income students be given priority or will aid be spread over as many students as possible?[2]

How far we have come – perhaps we should say regressed – since April. That there would be serious doubt about how these questions would be answered less than eight months ago is an indication of the change that has been wrought since April. After unprecedented growth in student assistance programs over several years, the past eight months in Washington, and in many states throughout the country, have produced a dramatic reversal.

No longer do we hear concern about educational costs being borne by middle-income families. Instead a transcendent concern has emerged – that concern being the need to reduce government expenditures. Thus, the position of the administration as stated by Edward Elmendorf, Deputy Assistant Secretary for Student Assistance Programs in the Department of Education, is as follows, and we quote:

> I believe that the primary responsibility for financing college education rests with the parent and the student. The federal role in paying for higher education exists only when there is a gap between school costs and the ability of the family to pay – not their willingness to pay.[3]

It is not clear whether this philosophical position emerged as a rationalization to justify budget cuts or whether having adopted that philosophical position, it then became possible to reduce federal expenditures for student-aid programs. It is clear, however, that a financial aid structure that evolved over several years has, in a period of eight months, been severely restricted and runs some risk of being substantially dismantled.

Today, we are facing a new debate. The debate is not about who shall pay or who benefits. It is not about the virtues of institutional aid vis-a-vis aid to students. Instead, the issues are concerned with the need to reduce the size of government (or at least shift the responsibilities and the burdens to state and local governments), the need to achieve a balanced budget, the primacy of user taxes (without any definition of who benefits), and the glories of supply-side economics. The debate focuses not on social issues nor social policy — but, rather, on economic issues and economic policy. We're overwhelmed with discussions about the processes of the economy and have little opportunity to consider the social good that might be achieved or lost in that economy.

It is, we think, instructive to recall the admonition of Mary Jean Bowman, a distinguished economist at the University of Chicago —

> Economics is a behavioral science and, at the same time, it is a branch of "moral philosophy." Systematic analysis of philosophical and ethical implications of the functioning of economic systems and changes in those systems is quite as important a part of the economist's heritage as his more strictly behavioral or positive economics.[4]

If developments in Washington during the last eight months foretell the future of national educational policy, there will be significantly less federal money available for a variety of programs, particularly financial aid. The administration prefers a more limited federal role in education, a role that, in their words, "exists only when there is a gap between school costs and the ability of the family to pay — not their willingness to pay."

On the surface that philosophical definition of the future federal role seems reasonable and easy to accept. But like so much that is happening these days, when one looks beneath the surface, the issues become less clear, more complex, and frequently less acceptable.

Who decides, and how do they decide, the ability of the family to pay? Is the experience of Pell Grants this year an indication? Expected contribution tables advanced by the administration suddenly revealed that parents could contribute much more of their income than was previously thought possible. Of course, it is merely coincidence that the revised contribution tables happened to provide support for the $400-million budget reduction in Pell Grants that the administration is also seeking. Do we have a measure of ability to pay when the administration, earlier in the year, determines that need tests should not be adjusted for increases in the cost of living, because the budget cannot afford the increased student assistance that this adjustment would require? Of course not. We have instead a wolf in sheep's clothing who is not cutting benefits but rather is "saving the program."

From the perspective of the student who wants to enroll in postsecondary education, what is the difference between the parent's ability and willingness to pay? If a parent is determined, by an already suspect needs test, to be able to contribute $2,000 to a child's educational cost but is willing, instead, to provide lunch money, will the administration intervene on this child's behalf? While this parent obviously is not living up to the standards and responsibilities prescribed for it by the administration, this provides small comfort the individual student who is denied the opportunity for higher education. Nor is society served by being denied the skills and contribution the student might have made were he not denied that opportunity.

Prior to the recent changes to the Guaranteed Student Loan Program, the distinction between ability and willingness was less important for student assistance programs. One of the most desirable features of the Student Loan Program was that it provided a means whereby students were able to assume the responsibility for financing their postsecondary education. The choice could be made by the student, and the responsibility could be assumed by the student. The choice existed for the student when his or her parents could not or would not provide assistance to help pay for the costs of higher education, or the choice could be exercised by the student to attend a more expensive institution.

With the introduction of a needs test to the Guaranteed Student Loan Program, student eligibility for a loan is determined after considering the amount that the parent can contribute to the student's educational costs. Students, therefore, no longer have the choice to assume the financial responsibility for their education on their own initiative. Instead, the federal government makes the choice for the student. A student can assume this responsibility only after the student's parents have exercised what the federal government has determined to be the parents' responsibility to finance the postsecondary education costs of their children. The choice cannot be made by the student nor the student and his family. Albeit that this choice has been available to families for over two decades, the more troubling concern is the potential impact of the elimination of this choice on those families who have anticipated its availability in planning for their children's education.

By restructuring the program in this manner, the liquidity mechanism previously provided to families has been substantially diminished. For those students with family incomes in excess of $30,000, the Student Loan Program cannot be used by the family to generate the capital that may be necessary to provide the expected contribution for the student's education. The parent's contribution must be provided from current income or taken from savings that have been set aside for retirement at the same time that the administration is advocating cuts in federal retirement programs and other support structures. Most analyses point out that those students attending public institutions with family incomes slightly above $30,000 are the ones most likely to be affected. No doubt these families will be affected significantly. But all families are likely to be affected when the cumulative effects of the cutbacks in all social programs are considered. The credit capacity of an individual family is finite, and if it is used to compensate for the elimination of benefits in one area it cannot also be used to support the family in another.

To replace the liquidity function served by the GSLP, the administration has tended to rely on the PLUS Program. This program enables the parent to borrow up to $3,000 per year on behalf of a dependent undergraduate student. Interest is not subsidized; interest is set at 14 percent, and repayment begins within 60 days of disbursement of the funds. This program will serve useful purposes. Indeed, in our judgment, it is essential that states take whatever steps are necessary to make sure that there is a viable PLUS lending program available. It is only through the PLUS Program that the liquidity mechanism necessary for families to meet their expected contribution requirements will be available. It is important to know, however, that the PLUS Program will not meet all needs nor serve all families.

Unlike the Guaranteed Student Loan Program, PLUS loans are not made on the basis of some future ability to repay the loan. Repayment begins immediately. A borrower obtaining a PLUS loan must be able to demonstrate an immediate capacity to repay the loan. Those families, therefore, who have the greatest capacity to obtain capital are the families that will find it easiest to obtain a PLUS loan. Conversely, those students and families for whom assistance was most important are the ones most likely to lose it. Nonetheless, without a viable PLUS Program, it is reasonably certain that many families will have difficulty providing the resources necessary to enable their children to go on to postsecondary education.

Assuming interest rates stay at or near their present level, it can be expected that the demand for PLUS loans will be very substantial by next spring and that many lenders will be making PLUS loans. There are obvious advantages to lending institutions to participate in the PLUS Program. Although the cost to the lender of administering the PLUS Program is higher for a PLUS loan than for a GSLP loan, the lender is working with a client that has an established financial position. Thus, it can be an effective mechanism to develop increased clientele for the lending institution. Over time, it will become an important service that a bank will need to remain competitive with other lending institutions.

Developments at the State Level

In most states, the 70's were characterized by an increasingly large investment by the states in postsecondary education – in both the public and private sectors. Thus, it was a glorious decade for higher education; a period which provides an ironic base for discussing the anticipated trends of the next 10 to 15 years.

As pointed out earlier, the state commitment to student financial assistance, while not on a scale comparable to federal programs, increased dramatically during the last decade. Grant programs, work-study programs, loan programs, reciprocity programs, tuition-equalization programs, and special assistance to certain professions were all instituted in an effort to enhance access to postsecondary education and to meet perceived social needs.

All of this occurred at a time when in many states massive capital construction programs were in progress in an effort to provide geographical access to postsecondary education. Throughout the decade, tuition rates in the public sector were kept relatively stable, in constant dollars, in the belief that the best way to ensure access to postsecondary education was through low-tuition pricing (recall that until three years ago residents of New York City could attend a city university tuition free and that community colleges in California, which enroll approximately 1,000,000 students, did not charge tuition).

The party is over. The pendulum has begun to swing in the other direction for postsecondary education and many other social programs. Enrollments have begun to stabilize, and soon the college-age population will begin to decline in the aggregate. Years of high inflation have spawned, inevitably, a new set of concerns in Washington and in the 50 state houses; concerns that may ignore, in the rush to balance the budget, conscious policy considerations. It appears that the Reagan Administration is only a national manifestation of what has been occurring at the state and local level for the last 18 to 24 months.

After 10 years of investing more and more dollars in postsecondary education, state officials will be confronted with an unpleasant task – allocating fewer funds to competing educational needs. Because glimpses of the future have already appeared in some states, the scenario is not difficult to preview: public systems and institutions will be seeking support at the expense of private institutions and student financial-aid programs; within the public sector, professional, graduate, and comprehensive institutions will be competing for a larger share of the shrinking pie with community colleges and state universities; collegiate institutions will be seeking support at the expense of vocational education and vice versa. Regardless of the outcome within the public system of institutions and programs, it is very likely that state support for postsecondary education, in general, and student financial aid, in particular, will be reduced.

Recent developments in Minnesota provide a good example of this prediction. No doubt, similar developments can be cited in other states. As a result of actions in the 1981 Minnesota Legislature, biennial support for independent colleges was cut from $9.3 million to $6.8 million, or 27 percent. Governor Quie, a long-time congressional supporter of student aid, recommended no increase in appropriations for scholarships and grants. While the legislature did increase the appropriation for the 1981-83 biennium by $10 million, the increase represented a significant reduction in the rate of growth in the program. Furthermore, revenue shortfalls in the current fiscal year make it likely that part of this modest increase will be recaptured in an attempt to balance the state budget in 1982 and 1983.

The legislature continued the policy of providing no state funds for enrollments over the 1977 enrollment base in the public collegiate systems, which means that more than 5,000 full-time-equivalent enrollments are being supported on tuition receipts alone. A bill has been introduced in the legislature to place area vocational-technical institutes and community colleges under a single new board, an effort attempting to wring greater efficiencies from limited educational dollars. Efforts are under way in the legislature to severely curtail or end tuition reciprocity with Wisconsin, North Dakota, and South Dakota, a very popular program which permits a Minnesota resident to enroll in any public institution in those three states for resident tuition rates. Finally, the Coordinating Board was instructed in statute to allocate no more than 50 percent of the scholarship and grant funds to students enrolled in private institutions.

So the new trends seem clear, a probable reduced investment in postsecondary education combined with dwindling support for programs that are intended to increase access and choice for students and to control the widening gap between the cost of public and private education.

While it is difficult to generalize from the experience of one state, as background it is interesting to see what happened to the Minnesota Scholarship and Grant Program as a result of 1981 legislative action, changes that were made with full awareness of likely federal developments. The Minnesota program builds on the foundation of the Pell Grant and, in combination with the federal award, attempts to fill 75 percent of a student's need. In order to hold spending for the program down and to achieve the legislative goal of limiting awards to students enrolling in the private sector, it will be necessary in 1981-82 to recognize 4 percent less of the cost of attendance than in 1980-81 and to reduce the maximum award limit by $200 to $1,050. Given this level of state funding, it will not be possible to offset the impact of federal award reductions with state money in 1981-82. As a result, the Coordinating Board will not be able to meet the goal of funding 75 percent of a student's financial need. At the same time, unanticipated revenue shortfalls in the current fiscal year will probably require mid-term tuition increases to offset reduced state appropriations.

To summarize, the situation for this school year is that low- and middle-income families who in the past have relied on student financial aid to help finance the cost of postsecondary education will face a much greater challenge than in recent years. In Minnesota, the average public tuition has increased by more than $100 over last year and will likely go up again before spring – the average private tuition by more than $400. The combined reduction in federal and state grant assistance for the year will range from about $100 to $369. The net increase in cost, in one year, will range from $200 to $769.

With family incomes failing to keep pace with inflation during the last three years, squeezing additional contributions from the family finances will be difficult. Increased borrowing is likely to be the only recourse for many families, and for many this will be the last year of low-cost loans.

Some Thoughts About the Future

As we meet, the prospect of additional cuts in federal student aid seems likely. The administration has proposed a $400-million reduction in Pell Grants this year and has talked of combining the three campus-based programs into one block grant. Should this occur, reductions in these programs can surely be anticipated.

No specific proposal for the GSLP has yet emerged (the latest estimate is January 1). We know, however, that the administration remains interested in cutting the GSLP. Among the proposals that have been floated are the following: basing all loans on remaining need rather than those for students with family income in excess of $30,000, increasing the origination fee to 10 percent, increasing the allowable interest charge, eliminating or reducing the student interest subsidy, and establishing an allocation formula that will limit borrowing in each state to some defined level.

It appears that the stage is set for even more significant changes in student financial-aid programs – not to mention higher education generally. In the scramble for scarce resources at the state level, and in light of the Reagan administration's inclination to reduce the federal role and support for financial aid, what outcomes can be anticipated and what sensible policy objectives and programs can be preserved? It seems apparent that if the federal role is systematically diminished, the states will be confronted with the need to make difficult choices and may have to assume a larger burden if student assistance is maintained at current levels.

If a state is determined to maintain its commitment to scholarship and grant assistance for financially needy students at current award levels, it will be necessary to allocate additional funds to this effort. The burden will be even greater if a state is determined to provide needy students with awards which reflect the combination of federal Pell Grants and state scholarships at present levels. Assuming that states will not raise taxes for this purpose, nor reallocate funds from welfare, medicare, or highway maintenance, the following options remain:

1. Raise tuition faster than the rate of inflation in order to release institutional support funds for grant assistance. This will require a clean break with the "low tuition" philosophy in most states.

2. Close or consolidate institutions and programs and redirect savings to student assistance, a highly unlikely development.

3. Tighten eligibility criteria in order to fund only the most needy students.

4. Make awards on the basis of some combination of financial need and academic aptitude or prior educational achievement.

5. Significantly increase the expected student contribution from work and loans, or

6. Some mix of all of the above.

If the Reagan administration should succeed in further curtailing access to the Guaranteed Student Loan Program, and, in effect, deny educational capital to middle-income families, political pressure will increase to create isolated loan programs or state-financed loan programs. These efforts, however, are likely to be counterproductive. Most state governments are not likely to respond favorably to financing a new loan program while seeking ways to reduce expenditures. Efforts to create isolated loan programs that are not dependent upon state financing, as is now occurring in several states, are also fraught with difficulty. Typically, they rely on pledging of institutional assets, thereby adding additional pressure on already burdened institutional assets. They place non-participating institutions at a competitive disadvantage, and they restrict student choice to those institutions that do participate.

We might be better off to focus on the development of proposals for the GSLP that will achieve cost reductions in the GSLP without the negative consequences that result from limiting borrowing eligibility to need that remains after considering the expected family contribution.

There are a variety of ways in which the cost to the federal government can be reduced without limiting access to student loans. The allowable interest rate can be increased, thereby reducing the special allowance paid by the government to lenders. Borrowing can be eliminated for first-year students and the student interest subsidy capitalized for seniors (students in one year or less programs could borrow, but their in-school interest subsidy would be discounted). Such a change would reduce the amount of loan volume and reduce in-school interest subsidy cost by more than one half. Elimination of the interest subsidy for seniors only would help to prevent accumulation of unreasonable debt burdens by student borrowers. Guarantee agencies could be permitted to charge a higher guarantee fee in which case the federal administrative cost allowance could be eliminated and federal reinsurance costs could be reduced by making the guarantee agency, rather than the federal government, responsible for up-front defaults and defaults resulting from death, disability, and bankruptcy.

There is, as they say, no free lunch. Each of these proposals would reduce the cost to the federal government and would increase the cost to the student borrower. But none of them would restrict access to loan capital as have the initiatives and proposals of the Reagan administration. Because access to loan capital would remain, changes of the type mentioned above provide a much more effective complement to the other reductions in student-aid programs that are likely to occur at the federal and state level.

It seems apparent, given the political realities in Washington and the states, that support for postsecondary education and student financial-aid programs is likely to be reduced and that families will find it increasingly difficult to pay for the cost of college. Under such circumstances, it is important that policy proposals be considered in context, not isolation. Now, more than ever, it is vital that states have a clear sense of goals and priorities to guide the decision-making process. State-level educational policy makers must understand relationships within the total system of higher education and the likely consequences on one or several components under alternative policy proposals. Tuition policy must be protected by the states. The health and vitality of postsecondary education will be challenged severely in the years ahead, and it seems apparent that the fate of higher education will continue to depend upon effective policy development and implementation by state governments.

FOOTNOTES

1. M.D. Orwig (Ed.), *Financing Higher Education: Alternatives for the Federal Government.* Iowa City, IA: The American College Testing Program, 1971, p. 2.

2. Lawrence E. Gladieux, et al., *The Federal Government, the States, and Higher Education, Issues for the 1980's,* Washington, DC: College Examination Board, 1981, p. 19.

3. Edward M. Elmendorf, "Notes from the Deputy Assistant Secretary," *The Bulletin,* August-September, 1981, p. 1.

4. Mary Jean Bowman, "Economics of Education," *Review of Educational Research,* December 1969, 39, p. 641.

CHAPTER 10

Capital Renewal in the 1980's: A State Perspective

Brenda N. Albright

Capital renewal approaches for the 1980's are likely to be somewhat different from approaches used in the past for several reasons. The magnitude and breadth of capital renewal will be much greater in the 1980's. Since the normal building restoration cycle is 20 to 30 years and since two-thirds of higher education space was constructed in the 1950's and 1960's, substantial capital renewal requirements can be projected for the 1980's. Further, the magnitude of capital renewal is exacerbated by significant deferred maintenance estimated to exceed $35 billion nationwide. The breadth of capital renewal has increased with projects needed to reduce energy consumption, to provide access for the handicapped, and to comply with federal and state statues and regulations for health, fire, safety, and environmental standards.

A second reason that capital renewal approaches will be different in the 1980's is the prolonged fiscal crisis faced by higher education. When inflation is considered, many public and private higher education institutions have

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experienced revenue declines during the past few years. Most institutions have responded to financial exigency with short-term solutions ranging from depletion of reserve and endowment funds to major reductions in equipment and travel budgets. For most institutions the short-term alternatives are exhausted, and long-term solutions must be explored. Also, for public institutions the primary funding source, state government, has additional problems. Competition among services for state funding priority will intensify with federal program reductions and judicial actions requiring increased state expenditures in areas such as corrections. Since the public has no interest in increased taxes or increased governmental debt levels, significant increases in state support for higher education or other state programs are unlikely. The prolonged fiscal crisis means that state governments and higher education institutions must reexamine budgetary priorities and explore alternative funding sources or risk a general deterioration of all programs and services.

Third, public confidence in social institutions, including higher education, has declined dramatically in the past ten years. Public higher education feels the effects of public opinion with demands from the legislature and executive branch to demonstrate accountability and management efficiency. Sunset review, performance audit, and other statutes have been enacted. Traditionally, state higher education agencies have been responsible for development of broad statewide fiscal policies, procedures, and recommendations for operating and capital funding priorities while institutions and governing boards have been responsible for preparation of operating and capital budget requests and execution of internal policies and procedures. In several states, however, the authority of state-level higher education agencies, or other state-level agencies, has been expanded into management areas previously of institutional purview. Additional centralization of management authorities will occur unless institutional accountability is demonstrated.

Not only will capital renewal approaches for the 1980's be different from those used in the past, approaches will differ among states and institutions. While there is no one best strategy, the basic framework for addressing capital renewal consists of documentation and measurement of the magnitude of the problem, selection and development of the appropriate funding alternative, and demonstration of accountability.

Documentation and Measurement of Capital Renewal

Allocation of funds to address the capital renewal problem requires more detailed documentation and measurement. Some states and institutions have used fairly simplistic procedures while others have developed complex capital studies, evaluations, or audits. In general, the documentation and measurement process identifies buildings, building systems, and support systems that fail to meet established physical, programmatic, and other standards. Cost estimation is an integral part of the process.

Ideally, an audit of physical condition should include Primary Structure (foundations, columns, floor, and roof); Secondary Structure (ceiling, interior walls, windows, and doors); Service Systems (cooling, heating, plumbing, electrical, and conveying); Safety and Health Standards, Handicapped Accessibility; Energy Efficiency; and Utility, Roads, and Other Support Systems. Evaluation of programmatic adequacy and other factors including historical, traditional, or aesthetic values are equal in importance to physical condition. A physically sound facility which does not meet current and planned programmatic needs may be an institutional liability when maintenance and utilities costs are considered. The physical condition of a building may be such that demolition would seem appropriate; yet for historical or aesthetic reasons, it may be desirable to remodel the facility. Conversely, a facility with a satisfactory physical condition may conflict with the campus facilities development plan so that demolition is appropriate. A thorough analysis of physical condition, programmatic adequacy, and other factors is essential to the development of an effective information base for states and institutions to document where the problems are, what action should be taken, and how much money is required.

For capital renewal to be addressed on a statewide basis, the documentation and measurement process must be characterized by comparability, applicability, and credibility.

Comparability. Information comparability for various facilities and campuses is of particular concern to state-level agencies responsible for developing funding priorities and allocating funds among campuses. Distribution of funds requires the availability of objective, comparable information so that state-level agencies are able to identify and prioritize problems and needs among campuses. Comparability may be approached in various ways. State-level agencies may require institutions to complete detailed facilities studies using standardized procedures and definitions. Or, comparability may be achieved by a statewide study with the same individuals applying the same criteria to each facility.

Applicability. State-level higher education agencies must work with other state-level agencies and state political leaders concerned with the allocation and distribution of funds not only among higher education institutions but also among other state services. Since capital renewal must be addressed for all state facilities, then the viability of a funding approach may depend on the applicability or potential applicability of the approach and its information base to all state agencies.

Credibility. In presentation of funding requests, state-level agencies must demonstrate the credibility of the documentation and measurement process. One important factor is the credibility of the individuals who document and measure. In some cases, external consultants or institutional personnel have conducted facilities evaluation studies. In others, a team approach with various combinations of state and institutional level higher education professionals and external consultants has been used. While it is important that institutional physical plant and engineering staff with intimate knowledge of facilities assist in the documentation and measurement process, it is equally important that individuals with current knowledge of federal and state regulations and expertise in construction techniques participate in the study. Rapidly escalating construction costs, combined with the progressive deterioration of many facilities, require timeliness in the process.

Selection and Development of State Level Capital Renewal Funding Alternatives

For capital renewal to be given funding priority, the selection and development of the appropriate capital renewal approach which will compete best with other demands for limited resources are critical. The alternative chosen must be supported by political leaders and institutional decision makers. The best funding source or sources must be selected. A fair and equitable means of distributing capital renewal funds must be selected. Appropriate definitions and guidelines for capital renewal funding must be developed.

Political and Higher Education Support. At both the state and institutional levels the most critical element in determining priority for funding is commitment. The commitment must be made by the key funding decision makers at both the state and institutional levels. Fortunately, the current environment has become conducive to obtaining support of key political leaders for capital renewal funding. A growing public awareness of the need to preserve facilities and successful renovation of many older residences have made capital renewal more popular and, therefore, more politically feasible for funding at both the state and institutional levels. Also, rapidly escalating energy costs have made political decision makers more conscious of increased operating requirements associated with physical plant expansion and, thus, increased the popularity of capital renewal projects. An effective documentation process provides useful information on need, cost-effectiveness, and cost avoidance which can be used to persuade political decision makers to support capital renewal. In some states, political leaders have expressed their commitment through enactment of specific capital renewal legislation. In others, on-going funding programs for capital renewal demonstrate political support. Institutional support for capital renewal is also a critical factor. While state-level coordinating or governing boards typically have responsibility for recommending capital and operating budget levels to the Governor and legislature, the recommendations are based on institutional requests for funds. Since the request for capital projects originates with institutions, capital renewal programs require institutional support and priority. Since political decision makers are sensitive to reactions from their constituents, institutional leaders may have a major role in persuading key offficals to give priority to capital renewal funding.

Source of Funds. Most states have established funding patterns whereby the taxpayer pays for educational capital outlays while the institution or student pays for auxiliary capital outlays. In the building boom of the sixties, some states financed education facilities through student fees. It is possible that the magnitude of the capital renewal problem, combined with state fiscal realities, will require some states and institutions to fund capital renewal from student fees. Some institutions may have to borrow funds to address the deferred maintenance problem. In the past few years, some federal funds have been available to fund capital renewal projects on a matching basis. A statewide matching fund source could provide an incentive for institutions to seek capital renewal from external sources. In most states, the taxpayer will probably provide most of the funds for capital renewal of public facilities.

Budget Approach. At the state level, like the institutional, there are two types of budgets, the operating budget funded through state general tax revenues and the capital budget, usually funded through twenty to thirty year bonds. Capital renewal could be funded through either the operating or capital budget process. One operating budget approach is to require institutions to allocate a specified portion of their operating budget to capital maintenance. Unfortunately, inflation in wages, building materials, and energy has made it very difficult for capital renewal funding from within normal budgetary allocations. Also, institutional pressures for priority funding of academic programs and salary increases make it difficult to reallocate or increase funds to the maintenance budget. A second operating budget approach is a statewide capital renewal formula. Many states use formula approaches for determining institutional operating budget requirements; the formula concept could be extended to capital renewal. Various capital renewal formulas have been developed. In general, these formula approaches provide supplemental operating funds. The formulas may be simple or complex and consider factors such as building replacement costs, square footage, facility age, building complexity, and renovation history. For example, institutions could be provided 30 cents per square foot as an annual allocation for capital renewal. The institution is then responsible for the utilization of these funds for needed projects. The funds could be accumulated in Plant Fund accounts and expended as needed with reports filed with governing boards and appropriate state officials.

There are several possibilities for funding capital renewal through the capital budget process. Capital renewal projects may be prioritized with other capital projects based on need or other factors. A second approach is to establish capital renewal as a separate category within the capital budget. Lump sum capital appropriations could be provided to the respective institutions or governing boards and allocated for capital renewal purposes. Or, capital renewal funds could be provided on a project basis. A state-funding environment characterized by intense competition for resources to fund on-going programs suggests that funding of capital renewal in the capital budget category has the most promise for success. One problem with capital budget funding of capital renewal, however, is that most states have statutes requiring capital bond funded projects to have lives that extend through the bond period. Many capital renewal projects do not meet this criteria. An alternate approach is to issue capital renewal bonds with a shorter life of 10-15 years. The current year's bond market makes this approach more attractive as many states have begun experimenting with short-term borrowing for capital projects.

Allocation of Capital Renewal Funds. State-level agencies are particularly concerned with the fair and equitable distribution of funds among institutions. For capital funding, fairness and equity translate to "what one institution gets, every institution gets." This rule applies to football stadiums or libraries. A challenge to state agencies is to determine an appropriate allocation scheme for capital renewal funds.

In capital renewal, state-level agencies must place a high priority on projects most needed to protect the state's investment in facilities. Consequently, if there are major roof replacement problems within a given state, then a high priority must be given to roof replacement. Similarly, a significant level of deterioration on a specific campus regardlesss of cause requires a high funding priority. Unfortunately, need and equity are very different concepts. Addressing capital renewal needs frequently raises both equity and management issues. If a state-level agency recommends capital renewal funding for an institution that has chosen to defer maintenance, the state-level agency may reward poor management and establish a negative management incentive. Or, the state-level agency may have difficulty justifying capital renewal funding if a non-need based system is used. Some states are resolving the need versus equity distribution issue by developing approaches which provide funding for a wide range of projects. Campuses with extensive capital renewal problems are required to address the most significant problems. Institutions with some capital renewal problems have more flexibility in submission of capital renewal projects. Campuses with relatively few capital renewal problems have the greatest flexibility in project submission and may request funding for energy or handicapped retrofit. All institutions are eligible for a "fair share" of capital renewal funds with this approach.

Project Eligibility. State-level agencies must establish appropriate definitions for projects eligible for funding. Specifically, there must be some differentiation of normal, routine maintenance projects from capital renewal and other capital budget projects. The definition should probably include minimum dollar boundaries which change according to institutional size. While it might be difficult for a small institution to replace a $20,000 roof, large institutions should be able to handle small capital projects from normal budgetary allocations. Guidelines should be clear regarding funding sources for student housing and hospital versus education space. Residential facilities that are rented or that the institution does not plan to use for future educational purposes should probably be excluded from state funding sources. The definitions should be specific regarding whether or not physical and programmatic problems should be corrected simultaneously. Also, guidelines should be changed radically from year to year.

Accountability Issues

Cause of Problem. Legislative and executive branch officials will require an explanation of the capital renewal problem. Documentation and measurement of capital renewal will likely show a number of causes: normal deterioration, faulty construction, inadequate operating expenditures, and deferred maintenance. Deferred maintenance will be the most difficult factor to explain since a statewide study will probably show that some campuses have been maintained better than others and that some institutional managers have intentionally deferred maintenance.

Responsibility. Facilities management is the responsibility of the institution and its governing board. Since the average tenure of an institutional chief executive is less than ten years, the institutional manager responsible for poor facilities management has probably been fired, rehired, or retired and, therefore, will not be held accountable. The appropriateness of current and future year's facilities management decisions must be demonstrated, or loss of institutional autonomy in facilities management may occur.

Higher education must develop accountability procedures for facilities management and capital renewal. Maintenance standards should be established, an evaluation of compliance with standards should be completed, a report should be made to the state-level higher education agency and the executive and legislative branches, and appropriate action should be taken if standards are not met. A similar procedure should be followed in the capital renewal funding process. The goals of planned capital renewal should be established, progress toward the goals should be measured, reports presented, and appropriate action taken.

Consequences of Inadequate Accountability. If higher education is ineffective in self-monitoring facilities and capital renewal management, executive and legislative branch officials may establish centralized monitoring or control devices resulting in greater state involvement in institutional decision making. Since special funding for much capital renewal could be avoided with sufficient maintenance and operation of physical plant expenditures, the most obvious candidate for centralized monitoring or control measures is the operating budget for maintenance. Legislative and executive officials in some states require institutions and state-level agencies to provide periodic reports and physical plant expenditure comparisons among institutions. In states with operating formula approaches, institutions are required to expend appropriated funds on a line-item basis. Statewide maintenance standards may be established with scheduled inspections or unscheduled audits of physical plant by external or state-level professionals. In response to "faulty construction" problems, legislative and executive branch oversight of construction activities is likely to increase.

In conclusion, capital renewal is a major fiscal problem to be addressed by states and institutions in the 1980's. The fiscal environment will see intense competition for limited resources and increased accountability requirements, for there will be a renewed interest in maintaining and restoring quality of programs as well as buildings.

CHAPTER 11

Campus Renewal in the 1980's: The New Voyage of the Beagle

Clinton N. Hewitt

Campus renewal in the 1980's will be like Darwin's *Voyage of the Beagle*. We'll discover that the survivors are the innovators and the adapters. If the Beagle is Snoopy, then we can call it the "Good Grief! Charlie Brown approach to renewal."

The approach to campus renewal in the 1980's will present a different environment and challenge for campus planners and administrators. Essentially

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we are faced with the cold hard facts of declining enrollment, reduced public support, unprecedented inflation, and dwindling financial resources. However, we are primarily confronted with the realities of maintaining the quality of our educational facilities under increasingly worsening economic conditions. I suspect that for most of you, the severity of fiscal conditions you are currently facing exceeds any in your past experience.

The airline's slogan, "Fly Now/Pay Later" characterizes the tremendous growth of college facilities during the 50's and 60's when the emphasis was on increasing square footage. There was little concern for long-term maintenance and repair of these facilities. The slogan "Pay Now or Pay More Later," as currently used by an auto service TV commercial to emphasize preventive maintenance, characterizes the present status of college and university facilities; that is, delays in correcting known facility deficiencies will result in greater costs later.

Without question, we have entered an era that will probably be far more difficult to survive than the tough challenges that we have faced in the past. However, I believe it will also provide an opportunity to demonstrate to the public our ability to plan and manage campus resources and survive the fiscal crisis we face.

Our institutions have developed into enormous, complex animals; and as Parkinson's Third Law states, "expansion means complexity and complexity decay or: the more complex, the sooner dead." If this holds true for higher education facilities, then delaying the effective renewal and management of university facilities will reach its crisis point during the 1980's.

The Carnegie Commission's release of its study, *The New Depression in Higher Education*, back in 1971 warned the country that higher education was "facing the greatest crisis it has ever had." Many institutions did not heed the warning of financial difficulties. I suspect that all of us found this difficult to believe, because we had not quite emerged from the glorious period of growth that began in the middle 1950's.

To meet the challenge of growth and change in the face of these trends, there is a need to act rather than react. What should and what can be done to maintain the quality of our instiutions during this era?

There is an increasing need, indeed demand, for more effective utilization of university facilities by central administration, the Regents, as well as the legislature, which provides a major portion of capital funds. They require procedures to provide more explicit justification when additional space remodeling is requested, and such procedures should be applied routinely to all programmatic space needs. In addition to the usual technique of evaluating capacity and projecting needs, effective utilization raises questions about considering the quality of space in determining rating and the establishment of incentives for better management of space.

I am certain you are exploring many ways to deal with the challenges facing you, and I want to share with you a new approach to planning for renewal that we have undertaken at the University of Minnesota. First, I should emphasize that it will take a series of strategies and approaches to meet the challenge of renewal in the 1980's. During the past few years, we have tried a number of approaches to obtain funding to rehabilitate the buildings on the campus:

1. We have initiated a *Space Management Plan* to systematically assess space requirements and utilization. When completed, it will extend the traditional methods of evaluating the capacity of University facilities and projecting future facilities. There are four major components to the plan:

    A. Computerized space inventory and audit
    B. Adoption of space standards and a method to address qualitative or suitability aspects of space use
    C. Utilization analysis and the development of space models
    D. Management incentives to encourage the most effective use of space

2. The Minnesota State Legislature required the University to "conduct *Energy Survey (Audits)* of all buildings and associated facilities which are heated by oil, coal, electric, or gas units to determine whether energy savings could be accomplished through insulation, climate control, or illumination modifications." We received a grant award from the Department of Energy under Cycle II of the Institutional Building Grants Program. We have also requested and received appropriations from the legislature for energy conservation and conversion projects (e.g., conversion from steam to hot water, window replacement, increased roof insulation, lighting conversions to fluorescent systems, and entry area vestibule construction).

3. *Occupational Safety and Health Act (OSHA)* – We have completed an inventory of University facilities in accordance with safety standards set by OSHA and have received appropriations from the legislature to initiate and continue a campus-wide correction program to upgrade our facilities to meet these standards. Our highest priority has been in the areas of fire protection (e.g., open stairwells and required exits).

4. We completed a building-by-building survey of *Handicapped Accessibility Problems* at all campuses in our system prior to the regulations implementing Section 504 of the Rehabilitation Act of 1973. The legislature has provided us with funds to continue a University-wide program of upgrading our facilities to make them more accessible and to expand opportunities for the physically handicapped.

5. We have submitted requests to the legislature and received appropriations for *Special Items* relating to local, state, or federal regulations (e.g., pollution control) for *Environmental Conditions.*

6. Funds have been requested but not yet funded from the legislature for *Repairs and Betterments* to cover major repairs to buildings and building systems that cannot be funded under operating budgets.

In the past, we have received excellent support from the legislature for these programs, but the prolonged fiscal crisis that we will face in the 1980's will require different approaches. The balance of this report deals with a new approach to capital renewal that we have initiated at the University of Minnesota.

The Planning Environment

From one point of view, the typical campus is an arena – a political, economic, and social microcosm. In this environment, renewal projects are frequently and more typically committed, funded, planned, designed, and constructed in a vacuum, isolated from campus-wide concerns once the commitment is made.

The key to the problem is in the sequence – commitment before the planning of renewal projects. We have had limited tools to do adequate early planning, to precede commitments with comprehensive evaluation of *all* needs and *all* available facilities. Without such planning, a renewal project can become an academic Aceldama. From the department's point of view, until a commitment is made, needs must be addressed piecemeal with desires and needs intermingled and fallback positions defined. Effective internal planning is practically impossible.

A good master plan for renewal can mitigate this effect somewhat, especially regarding departmental consolidation, campus circulation, and building services. For renewal projects, however, traditional master planning can do little more than raise red flags. The methodology does not respond to the complexity of evaluating multiple alternatives quickly nor does it support seeking solutions that make the most economic sense.

Planning for renewal is further complicated by the issue of growth. Most colleges and universities today are planning in the context of "no growth" projects. Recent statistics, however, have shown such projects for the long term to be faulty, if not for the institution's entire population then certainly for individual programs. Planning should at least address "what if" questions regarding growth.

In short, much of physical planning today continues to respond to traditional pressures and is limited by traditional techniques. When dealing with new construction, the cost of these limitations is moderated. Selecting an appropriate site is an enormously simpler task than selecting an appropriate existing building for retrofitting to a given program. In the context of renewal, the traditional method ignores important issues and misses significant opportunities:

- Opportunities to optimize reuse of serviceable building components
- Opportunities to more closely integrate planning functions and overall goals
- Opportunities to provide individual departments with a framework for meaningful and continual internal planning
- Opportunities for achieving lasting consolidation
- Opportunities for significant economies in both capital and operational spending

Finding a Better Way

To improve the effectiveness of planning for renewal, we must find a way to perform the various planning functions in a more integrated fashion. We need methods to work from the general to the particular in several disciplines simultaneously, with feedback among the disciplines helping to shape the decision process. New technology makes such methods feasible. At Minnesota we are just now completing such a study. The procedure I am about to describe incorporates what we learned as well as what we did. It is not "blue sky." With today's computers the following procedure is not only possible but cost effective and amazingly quick:

1. Establish a meaningful planning horizon.

2. Establish criteria to govern priorities.

3. Define policies for general purpose and other nondepartmental space.

4. Determine program requirements in summary, without performing detailed space-by-space analysis.

5. Create a program data base describing all program requirements both graphically and statistically.

6. Create a facilities data base for each building containing:

   - Graphic material such as floor plans and location on campus map.
   - Evaluation of physical condition.
   - Statistical information such as
     room types and sizes
     current departmental allocations
     current allocations to general purpose space
     usage statistics
     special characteristics and equipment
     current allocation to circulation and other overhead space.

7. Create a cost model for each building based on parameter quantities by building system, building condition, and available building services.

8. Establish alternative "fits" of program requirements to existing facility using computer graphics and statistics.

9. Prepare comparative conceptual budgets by building for each alternative using the cost model.

10. Evaluate each alternative in terms of consolidation and campus circulation using computer graphics.

11. Prepare variance reports identifying deviations of each alternative from stated goals – programmatic, master planning, and budgetary.

12. Delegate responsibility for review and recommendation involving both user clients and administration.

13. Review rough fit information and select alternatives for further study. Identify specific problems to be addressed.

14. Refine selected alternatives in close cooperation with the review group.

15. Determine appropriate levels of remodeling for each building for each alternative.

16. Measure efficiency gains associated with extensive remodeling.

17. Perform Life Cycle Cost Analysis for each alternative.

18. Evaluate refined alternatives and recommend the plan most closely satisfying all criteria.

19. Using network analysis, develop alternative implementation schedules designed to satisfy most urgent needs first while minimizing disruption and double moves.

20. Review schedule alternatives and select schedule most closely satisfying all criteria.

21. Finalize schedule and develop an escalated funding requirements projection. Adjust schedule to accommodate probable funding limitations.

22. Draft a final report detailing the comprehensive plan in terms of cost, time, and space.

23. Review and approve draft, making final necessary revisions.

24. Submit final report to administration and funding entities as an integrated interdependent plan.

25. After approval in concept, circulate plan to affected departments for use in departmental planning.

If funds are available, a logical final step is to use the data bases created in the study for detailed programming of projects scheduled for immediate implementation.

The process described above offers several significant advantages over traditional programming and planning methodologies. First, it describes the simultaneous consideration of cost, time, and space in the planning process. With such an integrated approach, planning issues and space allocation decisions can be made in the context of cost and time implications. This produces a more practical and affordable result. The quality of capital budgeting is improved, minimizing change during each project's implementation.

Secondly, the use of computer graphics technology enables a high level of visualization and communication in support of the planning decisions being made. Such visualization is interactive, involving users and administrators directly and creatively in the planning process. It combines the expertise of building professionals with a minimum learning curve for each. Communications are graphic and verbal, in real time.

Finally, the results of a study performed this way provide an unusual degree of flexibility for adapting to change during the long period of implementation. Implementation of the total study is likely to take a number of years. Academic requirements and departmental organization will continue to evolve, making the easy incorporation of such changes a necessary feature of this study's usefulness.

The East Bank Study – Case History

A few years ago we recognized that the era of expansion was drawing to a close and that we would be entering an era of remodeling and realignment. On a campus that was established before Minnesota became a state, we had a concern about the continuing use of a number of older buildings. The legislature funded our request to study the recycling of fourteen buildings on the East Bank Campus, all constructed in the early decades of this century. The primary objective of the study is to establish the feasibility of refurbishing them to house selected academic programs of the College of Liberal Arts, College of Education, Institute of Technology, College of Biological Sciences and General College, as well as selected administrative functions.

We began last autumn with the appointment of the East Bank Planning for Selected Facilities Advisory Committee. The committee was comprised of administrators and faculty from the departments involved. We were charged with the oversight of planning and renewal and reuse of fourteen buildings, almost 1,000,000 square feet, for elements of five colleges plus selected administrative groups. Typically these programs were widely dispersed – in one case in 30 buildings on two campuses. The Advisory Committee asked each entity to update its program requirements and submit them for review. The programs submitted were in varying degrees of completeness and in prose format, intermixing data with statements of mission and philosophy.

In addition to departmental programs, we had two computer tools:

1. Our space assignment data base with room sizes, HEGIS classification, and use statistics.

2. The Minnesota Facilities Model which generates space requirements from head counts, FTE's, etc.

The task was further complicated by existing requests, formal and informal commitments, and requests for funding. Therefore, the study beginning was somewhat unclear and was overlaid on a historical continuum of competition for space, in progress. We organized our approach around the basic tenets of planning:

Where am I?
Where do I want to go?
How do I get there?

Initially the committee was stalemated by the sheer quantity of available data and the complexity of the issues. We had neither the time nor the budget to support the learning curve necessary for a traditional planning consultant to help us arrive at a practical plan sensitive to the fabric of the University. We did two things. We commissioned a team of University staff to prepare an Obsolescence Report on the 14 buildings dealing with:

- Code compliance
- Mechanical and electrical systems
- Architectural condition
- Structural condition – a building quality score sheet to provide reasonable judgment on the overall condition of a building was developed.

At the same time, we retained a planning consultant equipped with a multidisciplinary professional staff and computer systems addressing space planning, architecture, cost, and scheduling. The game plan was for the consultant to identify, define, and test alternatives but to leave planning decisions to the committee. In general, we followed the procedure I outlined previously.

In the inventory phase we consolidated the massive available data, graphic and statistical, in the consultant's computer systems. This effort was augmented with physical observation and data gathering where needed. Program requirements were summarized by HEGIS code and compared with current assignments, and variances in the data were resolved.

In the Analysis Phase we identified and ranked the issues ending up with seven issues ranked as follows. This allowed the consultants to evaluate each building for the most appropriate "fit" of programs.

1. Suitability of building to program

2. Schedule

3. Existing commitments

4. Cost

5. Effect on general use spaces

6. Compatibility with campus planning framework

7. Disturbance of current assignments to units not in the study

Except for 6 and 7, there was no significant difference in importance. The consultant then worked through multiple alternatives interacting closely with the committee.

In the implementation phase, we arrived at the solution expressed in the following examples:

1. Campus maps showing consolidation achieved by the recommended plan and its impact on campus circulation and other planning issues.

2. A comparison of type of space by HEGIS code, between program requirements and existing conditions.

3. A comparsion of space vacated and required.

Based on this solution, the consultant prepared budgets for three levels of remodeling for each building. The budgets expressed not only today's dollar cost but also the efficiency gained at each level of remodeling.

The study is now in the final phase of completion. The consultant is in the process of analyzing the Life Cycle Cost implications of each of the 45 remodeling alternatives (a fifteenth building sneaked into the study). This analysis will measure operation and maintenance cost on an assignable square foot basis. This will enable us to measure the dollar value of increased efficiency and evaluate investments in extensive remodeling.

Based on this analysis, we will recommend the appropriate level of remodeling for each building. With this final information, the consultant will complete schedule analysis and present the committee with schedule alternatives.

With this final issue resolved, the study will be complete and a Final Report prepared for submittal to the University administration, Board of Regents, and, ultimately, the legislature. The data bases will be retained to provide the basis for accommodating change during the decade, or more, of implementation.

Conclusions

To my knowledge, the East Bank study is a first in certain respects. I am unaware of any comparable attempt at comprehensiveness in examining the renewal opportunities of several buildings and programs. I believe it has been extremely successful in achieving its goal of establishing a practical, thoughtful plan for the reuse of multiple buildings by multiple units. The conduct of the study was speedier than I thought possible. This, of course, is a necessary element since without speed the moving target will escape entirely.

Should I be involved again in a similar study, a distinct possibility, there are several improvements I would try to accomplish.

First, I would try to obtain a freeze on commitments and approach the study with complete objectivity. To accomplish this, units would have to agree that finding the best solution for everyone is more important than their current claims on available buildings.

Second, I would attempt a more thorough job of dealing with growth. While the systems we used were designed to include growth as a planning parameter, we largely ignored growth in our study.

Third, I would seek a better definition of the committee's mission before it's appointed. Much time would have been saved had the issue been clearly defined, criteria tentatively established, and inventory functions completed before convening the committee. This would have enabled us to complete the study much earlier (by 6 months) than the 15 months it has taken. While the techniques we used are sufficiently flexible to accommodate change after completion, it is imperative to reach agreement on the base plan as quickly as possible.

With minor modifications, therefore, the procedure outlined is another answer to the problems of renewal in the 80's. It is well-suited to the planning environment of short money, scarce energy, and shrinking enrollments. It is submitted as a practical answer to the problems we share for the coming decade.

The approach I have just described is an attempt at Evolutionary Heroism at the University of Minnesota. We believe the process is transferable. In fact, the technology was developed to manage corporate space. Obviously, you must modify it to adapt to your own unique situation on your campus. With fewer variables it should be possible to do an even more thorough job.

The renewal crisis is clearly at hand, but it's a crisis that may well be a boon. For the Chinese, the word "crisis" has two meanings: 1) that of danger and 2) that of opportunity. Indeed, the word itself comes from Greek roots meaning "decision." A time of decision is at hand, a time of great opportunity to achieve some substantial and significant changes in campus management styles, a time to rectify the balance between facilities and programs which we have abused.

Those who seize the opportunity must join the *New Voyage of the Beagle.*

CHAPTER 12

Tuition Pricing Policies and Their Effect on Institutions: Revenues, Students, and Mission

William Hyde

The very early private institutions of learning charged tuition to cover the cost of instruction. With the emergence of tax support for public institutions and other sources of revenue, the direct link between instructional cost and tuition has been severed. In the last three decades the popular role of tuition has been a policy variable used to affect postsecondary access or a mechanism for filling frequent gaps between state appropriations and expenditures. In the current climate of fiscal constraint, higher education administrators and state policy makers are examining more closely the expenses and sources of revenue for higher education. One area that perhaps has not received enough attention is tuition pricing policies and the effect they have on revenues. The relation between the tuition level and total tuition revenue, however, is not straightforward. Altering tuition levels may affect enrollment levels, the type of student that enrolls, institutional costs, and the incentive of an institution to enroll additional students. Furthermore, some institutions are in better situations than others to raise tuition.

The purpose of this paper is modest. It presents no new data but draws together existing knowledge from three areas – institutional cost structures, student responsiveness to costs, and the contribution of tuition to institutional revenues – to examine the possible consequences for institutions increasing tuition. In this context, tuition is examined from the institution's perspective as a management tool. However, in many states the institution has little or no control over the tuition level or is "forced," through legislative action, to alter tuition in predictable ways. Changing the tuition level in these states, although it will certainly affect the institution in many ways, will have the most

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serious financial consequences at the state level. Consequently, tuition pricing policies may be viewed also by the state as a budgeting consideration. While the emphasis in this paper is to examine the different effects that changes in tuition will have on different types of higher education institutions, it also serves as a word of caution to policy makers who might overlook the distinct roles of various colleges and universities and the degree to which the ability of an institution to play a particular role is affected by tuition pricing policies.

A Typology of Institutions

Each college and university is different and faces different prospects for the future. However, certain generalizations are useful for discussion of current issues. Six categories are used by Crossland (1980) for classifying institutional enrollment prospects: (1) public state universities, (2) public state colleges, (3) public community colleges, (4) high prestige private colleges and universities, (5) non-prestigious, tuition dependent private colleges and universities, and (6) small, specialized private institutions. The public university generally includes a flagship and regional campuses. These institutions have a fairly stable market. The public state colleges include many former state teacher's colleges. These institutions are in jeopardy of losing enrollments during the decline anticipated in the 1980's. Public community colleges, Crossland believes, have become well established over the last 30 years and will fare reasonably well in the years ahead. The evidence presented here suggests that their continued success is far from certain and that it will probably be varied.

Among private institutions, the high prestige colleges and universities and the small, specialized institutions also have established clientele that will provide them with a degree of stability. The non-prestigious, tuition dependent private colleges and universities will suffer the greatest competitive pressures.

Based on the data available, hypothetical but presumably reasonable scenarios can be generated for various types of institutions to examine the effect of changes of tuition on enrollment, institutional revenues, and costs. Since the financing of private institutions generally excludes state aid, private institutions are excluded from this analysis. Within the public sector, attention is given to two extremes: public research universities and community colleges. The former serve an elite group of students; the latter serve virtually all interested individuals. Scenarios could also be developed in a similar fashion for other institutions that might be considered as lying between these two extremes.

A Hypothetical Research University and Community College

For simplicity, the following illustrations assume that all revenue is generated from either students or state aid. The characteristics of the university and community college are fictitious but presumably typical of actual institutions. Each of the four characteristics is listed below, and each characteristic is discussed briefly regarding the value selected for each factor and the implications it has on the institutions. For computational simplicity, both institutions are assumed to have 100 students.

	Research University	**Community College**
Average cost per lower division student:	$2,700	$2,000
Tuition (30% of average cost):	$ 800	(15% of average cost): $ 300
Marginal cost (1/3 of average cost):	$ 900	(½ of average cost): $1,000
Tuition elasticity:	-.2	-.5

Average Cost

The average costs per student reflect the more expensive operation of the research university. Average cost increases with level of instruction. While it is difficult to separate costs associated with various levels of instruction, estimates suggest that the ratio of average costs among graduate education, upper division, and lower division undergraduate education are about 3 to 1.5 to 1, respectively (Bowen, 1980; James, 1978). Of course, these three levels of instruction are not offered in all types of institutions. Among research universities, the cost gradient among levels is steeper, due largely to the reduction in average cost of lower division courses made possible by having large introductory classes for lower division students and using research assistants instead of higher paid faculty for instructors (James, 1978). If one looks across this type of institution within lower division undergraduate education, instead of across level of instruction, estimates of average costs vary by only a few hundred dollars, or by about 10 to 20 percent, with the lowest cost being found at the research university (James, 1978).

Tuition

Tuition as a source of revenue differs widely among public institutions, depending on endowment, research grants, federal funds, and other sources of revenue. The choice of the hypothetical tuition level is based on published data. Tuition as a percentage of educational and general expenditures (E&G) varies only slightly among sectors. At public universities, tuition revenue in fiscal year 1978 was 16.5 percent of E&G. For other public four-year colleges it was 16.4 percent, and it was 16.3 percent for community colleges (Brandt, 1980).

~~Regionally, reliance on~~ tuition is more variable. Among community colleges, tuition receipts as a percentage of E&G expenditures vary from 4.2 percent in the Far West to 29.5 percent in the Mideast. For other public four-year colleges, the range is from 10.1 percent in the Far West to 22.0 percent in the Great Lakes region (Brandt, 1980). Variation is greater on an institutional basis, even among public universities where it varied in 1978-79 from 2 to 30 percent of total revenues (Frankel and Geralt, 1980). In essence, reliance on tuition in the public sector varies more among institutions, states, and regions than among institutional sectors.

The share of costs assessed the student through tuition may be rising. Over the last 50 years, with the exception of short periods during the Depression and the Second World War, tuition as a percentage of instructional costs has seldom exceeded 20 percent in the public sector (O'Neill, 1973). In more recent years, tuition as a percentage of instructional costs has declined largely because of inflation. Costs rise continually, but tuition rates often remain unchanged for several years. To counterbalance this effect, several states are indexing tuition to the cost of instruction. Fourteen states now index tuition to cost, an increase of eight states since 1976 (Viehland, Kaufman and Krauth, 1980). In those states for which information was available, tuition is set at at least 20 percent of cost for resident undergraduates: 20 percent in Arizona; 23 percent in Oregon; 25 percent in Colorado, Kansas, and Wisconsin; 30 percent in New Jersey; an amount not to exceed one-third in Maine; 20 percent for community colleges and 30 percent for senior colleges in Virginia; and 23 percent for community colleges, 25 percent for regional universities, and 33 percent for doctoral universities in Washington (Arkansas Department of Higher Education, 1981). In keeping with the community college philosophy of maintaining low tuition, tuition for this hypothetical community college is set at 15 percent of average cost for this illustration; university tuition is set at 30 percent.

Marginal Cost

The next characteristic referred to in the illustration is marginal cost. Measurement of marginal cost is difficult and, in fact, depends upon definition of institutional mission and scope, which are nebulous concepts to quantify. Yet, marginal cost is a critical reference point for an institution. Most states using an allocation process directly or indirectly based on enrollments (State of Maryland, 1981) are concerned that the relationship between changes in enrollment is properly equated to changes in costs. The popular practice has been to allocate funds on a per student basis. If enrollments increase by 1 percent, aid is increased by 1 percent. The assumption, not necessarily correct, is that additional or marginal cost of the student is equal to the average cost. In the present fiscal climate, in which enrollments are declining in many parts of the country, institutions are claiming that average cost exceeds marginal cost and that as enrollments decline, reduction of state aid should be based on the marginal cost.

Comparisons by Brinkman (1981) of marginal and average instructional costs show that the two costs are similar for several levels of instruction at several types of institutions. This occurs over nearly the full range of enrollments (for small institutions average costs increase more than marginal costs), although there are some exceptions. One exception is the research university where average cost for lower division instruction is about $1,300, and marginal cost is about $500. While the specific dollar amounts vary substantially depending upon the assumptions implied by the use of a particular statistical model and the calculations made, these figures are meant to be only rough approximations.

For upper division undergraduate students and for graduate students at the research university, average and marginal instructional costs do not appear very different. Inclusion of noninstructional costs – research, public service, libraries and other academic supports, institutional support, and operation and maintenance of plant, which are nearly all fixed costs – would raise average costs without much effect on marginal costs. In fact, average costs would slightly more than double at community colleges, and average costs would increase by more than that at universities. A more exact estimate for lower division students at universities depends upon what judgment is made regarding the value of lower division education at research universities. However, even if all research costs are excluded, the cost of other noninstructional activities will raise the average cost more at research universities than at community colleges (Mertins and Brandt, 1978).

Another exception is the academic community college. Average instructional cost is about $1,200, and marginal cost is $700. For technical community colleges, there is practically no difference between average instructional and marginal costs. For comprehensive community colleges, there is only a slight difference. Explanations for these different results are speculative but rest largely upon the way in which resources are combined within an institution. For example, budgeting procedures often tie tightly the number of faculty positions to the number of students at each level of instruction, as well as among program areas. It is also important to point out that average costs vary widely (Bowen, 1981), and differences between average and marginal costs may be more a function of the maturity or stability of an institution than the institutional sector of which it is a member.

Tuition Elasticity

Tuition elasticity is the last characteristic considered in this hypothetical analysis. In the context of higher education, tuition elasticity (more correctly, enrollment or revenue elasticity with respect to tuition) is simply the degree to which enrollments or revenue are sensitive to changes in tuition. If enrollments or revenues change dramatically for a small change in tuition, tuition is elastic. If there is little change, tuition is inelastic. All estimates of enrollment elasticity with respect to tuition show that enrollments are not very sensitive to changes in tuition. Nearly all calculations result in elasticities of less than one (see, for example, McPherson, 1978). Although estimates are drawn from a variety of situations involving single institutions, state systems, national aggregated data as well as public and private institutions, a ballpark figure of elasticity is -.3. Specifically, a 10 percent increase in tuition will result in a 3 percent decline in enrollment (Hyde, 1978; Jackson and Weathersby, 1975; McPherson, 1978). However, elasticities vary among types of institutions.

Public universities, private prestigious colleges and universities, and specialized colleges have lower tuition elasticities than other types of colleges. Community colleges exist in so many different contexts that they encompass a wide range of elasticities. One of the more important considerations is whether they are located in an urban or rural area. Since community colleges draw on a local market more than other colleges (Zemsky et al., 1980), a rurally located community college will have a lower tuition elasticity than an urban college where presumably other colleges are available.

Elasticities also vary among students with different family income levels. One estimate suggests that low income students are about twice as sensitive to changes in cost as middle income students, and high income students are about two-thirds as sensitive as middle income students (California Postsecondary Education Commission, 1980). Estimates of high income students attending elite private colleges are generally between -.1 and -.2 (Spies, 1973). Low income students attending community colleges have cost of attendance elasticity of between -2.3 and -3.8, which translates into a tuition elasticity of between -.4 to -.6 (Hyde, forthcoming).

Policy Implications

From the preceding illustration of the research university and the community college several conclusions can be drawn of the different effects that changes in tuition will have on the two types of institutions.

1. *If tuition is raised to cover increased costs, institutional revenue is more likely to increase or be reduced less for the university than for the community college.*

Institutional revenue for these two institutions without raising tuition is as follows:

University	**Community College**
(100 students x $800)	(100 students x $300)
+ (100 students x $1,900)	+ (100 students x $1,700)
= $80,000 + $190,000)	= $30,000 + $170,000
= $270,000	= $200,000

The university receives 30 percent of its revenue from student tuition and 70 percent from state aid. The community college receives 15 percent of its revenue from tuition and 85 percent from state or local aid.

If costs increase by 10 percent, but the legislature is only willing to increase appropriations by 6 percent and the balance is to be made up with tuition increases, university revenue will increase and community college revenue will decline. The various changes are as follows:

Average cost:	$ 2,970		$ 2,200	
Tuition:	956		398	
Revenue:	96.0	(956 + 2014)	83.5	(398 + 1802)
	= $285,120		= $183,700	

The university fares better because of its lower tuition elasticity. Fewer students decide not to attend when tuition is raised than among the community college students. Furthermore, the percentage increase in tuition at the community college is greater (33 percent) than at the university (20 percent).

2. *The effect on an institution of a decline in enrollment depends on the cause of the decline.*

Some institutional costs are constant, regardless of the number of students, and others vary in proportion to enrollments. The degree to which average costs are sensitive to enrollment changes depends on the institution's financial structure. The difference between marginal cost and average cost is greater for the university than the community college. Consequently a demographic change in enrollment, say 3 percent decline, will probably result in a more rapidly rising average cost at the university than the community college. Such an increase in average costs will exert particular pressue on the university to modify its curriculum or mission to reduce costs. It also would presumably produce interest on behalf of the university for a funding formula based on marginal costs.

A decline in enrollment that results from an increase in tuition will have different effects. If tuition is indexed as a percentage of cost, a comparable change in tuition will affect the community college more severely than the university because of the greater tuition elasticity for the community college. The greater community college tuition elasticity results in (1) a greater loss of students and revenue and consequently (2) a greater change in average costs than for the university.

3. *If tuition is increased, the percentage decrease of state aid is greater for the community college than for the university.*

If a state legislature decides that students should pay a larger share of education costs and raises tuition by 10 percent, assuming that actual costs are unchanged, the following costs would result. For the university, state aid declines by 6.1 percent (from $190,000 to $178,360); for the community college the decline is 6.7 percent (from $170,000 to $158,650). The savings to the state is due to a combination of having fewer students to support and supporting those students at a reduced level because of the increased tuition. The majority of the state cost savings at the university are due to the higher tuition revenues. The state pays $3,640 less for two individuals who do not enroll but pays $7,840 less for the 98 students who pay the additional $80 in tuition. At the community college, similar calculations show that 75 percent of the savings to the state is due to fewer students, and only 25 percent is due to the higher tuition. If a state is considering raising tuition levels, it should realize that the cost savings it may realize from the community colleges will be mostly at the expense of access.

4. *The university is in a better position than the community college to increase tuition and revenues by increasing student financial assistance.*

In the instance of both the university and community college the reduction in state aid and the greater reliance on tuition revenues have been gained partially at the cost of enrollment. Furthermore, those students who do not attend are probably from a lower income group than the other students. If the state or institution has a commitment to promoting access, raising tuition without taking any other compensating steps clearly erodes achievement of access. The provision of student financial assistance, if it can be targeted reasonably well, may offset the effect of the higher tuition.

The key to increasing tuition revenue is being able to segment prospective students by their ability and willingness to pay. Through tuition pricing policies and through awarding student financial aid, various net prices (student cost of attendance minus student financial aid) are charged. Higher net prices are charged to high income students and their families, who presumably are those more likely and able to pay the higher costs. A portion of the increased revenue is used to reduce the net price to lower income students. For an institution that serves a heterogeneous student body, this practice should be more successful than for an institution, such as a community college, that may have a more homogeneous student population with respect to ability to pay (Dickmeyer *et al.*, 1981).

In the instance of the hypothetical university, two students decide not to enroll with the higher tuition. While it is not possible to identify in advance which two students will not enroll when tuition is increased, they presumably would be in the bottom quarter of the income distribution of the students. If all 25 students in the lower quarter were awarded financial aid of $80, in addition to whatever other aid they may already receive, their costs would remain unchanged, and they could continue to enroll. The cost to the institution or state would be $2,000. Since the tuition increase generates $8,000, the net gain would be $6,000. In actuality, however, financially needy students are not found only at the bottom of the income distribution. Among Pell Grant recipients in 1976-77, 18.4 percent had family incomes above $15,000, and 4.7 percent had incomes above $25,000. The participation of high income students is even greater among other financial-aid programs (Dickmeyer *et al.*, 1981). Consequently, determination of the actual level of financial resources needed and the trade off between higher tuition and additional net tuition revenue are perhaps best established through an incremental process.

The extent to which an institution will succeed in increasing tuition by increasing student financial assistance also depends upon prospective students having information about the programs. A high tuition/high aid policy requires providing information about costs and aid availability so that prospective students will not be deterred by the high tuition change. While most students are aware of federal student financial-aid programs, individuals who are not students do not have the same level of information. Because minorities and low income individuals routinely acquire less information than others about education programs as well as about social services in general (Olivas, 1981), particular efforts would be needed to inform the prospective students of available assistance. The cost of providing that information should, in some way, be subtracted from the increase in gross revenue in calculating the net change in revenues.

The success of increasing tuition and revenues by increasing student financial assistance depends upon several factors. These are the tuition elasticities of students of varying incomes, the relative composition of the tuition elasticities among the student body, and the effort required to inform prospective aid recipients of the availability of financial aid.

Summary and Conclusion

In the past, discussion of tuition pricing policies has occurred primarily in the context of (1) the effect of tuition on access, (2) the apportionment of the cost of education paid by the student and by society, or (3) the use of tuition to fill appropriation shortfalls. With the current national fiscal conservative mood, tuition pricing is being viewed in a more pragmatic light. With tight budgets among institutions and states, tuition as a source of revenue is receiving closer examination. Its potential is related to the indirect effect tuition levels have on institutional costs and the responsiveness of students to costs.

While institutions and states may be under great pressure to raise tuition, they should examine the various effects that such action would have on other dimensions of the institutions. The illustrations presented in this paper identify some of these relationships that are affected and suggest that the effects will be different for various types of institutions. Two key observations are that the demand on state resources becomes less whenever tuition is raised and that much of the impact on community colleges is to reduce student access. Another important observation is that some institutions, such as research universities, are in a more advantageous position than most community colleges to raise tuition, in conjunction with increased financial aid, and revenues without having a detrimental effect on enrollment.

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CHAPTER 13

Coping With the Dynamic Duo of the 1980's – Fluctuating Enrollments and an Uncertain Level of Resource Support

Joseph Cox

Higher education finds itself today in this country beset from all sides by forces and events which treaten to overwhelm many and certainly which discourage most. Many of us once believed that confronting the challenges of the 80's would primarily be a matter of streamlining our institutions, building in a bit of cushion and putting our resources into keeping our enrollments up, being more competitive, and thus weathering the storm. In the mid 1970's, when the demographic realities of the 80's first began to be taken seriously, at least by some of us, we proceeded to set out to educate our faculties, staff, and the external publics which supported us. Those were realities which we knew we were not going to change. It was simply a matter of backing up 18

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years to have a look at the birthrate and calculating the potential size of the nation's entering freshman class next fall. There was also a great deal of discussion at AAHE and ACE meetings of the need to reach out, to bring higher education's message and promise to the great multitudes of the unwashed and uneducated who lived beyond the traditional walls of academe – the so-called non-traditional student, the weekend student, the evening student, the placebound student, etc. Not to mention, of course, our increasing commitment to carry higher education to those who had previously not had access or who had not been able because of disadvantaged background to successfully compete in the hothouse environment of the university. Many of us even went so far as to conceive on our campuses strategies for coping with enrollment-caused retrenchment. We talked about the steady-state of the late 70's giving way to a period of gradual decline in the 18 and 22 year old population and the need for our institutions to prepare for and adjust to living in that environment.

Quite frankly, however, what even the most perspicacious of us failed to see clearly, although it may have occurred in some of our darker moments just before the dawn, was a situation in which enrollment, instability, and decline might be only half of our problem. In retrospect, if one is graphically oriented, we ought to have seen that there were *two* crises curves occurring on the graph and not just one. The one crisis curve we saw clearly. It was easy to document. Demographics didn't lie, and for the most part, we were locked in. The other crisis curve documents the diminishing ability of our funding publics to continue to support us at the levels to which we have become accustomed. Each year we seem to have fewer dollars to expend, both as the result of shifting societal priorities and needs and, of course, because of the continuing presence of that most insidious of institutional cancers, inflation.

There once was a time when I thought the spectre most greatly to be feared was enrollment decline. But those of us here in the western states are now finding that there may be a worse situation – where enrollments remain fairly stable and some programs continue to increase, but where our problem is the level of resource support – the faltering ability of the states with their recession-threatened tax bases and declining tax incomes to maintain the level of support we previously enjoyed. Witness what has happened in Utah, Washington, Idaho, and now in Arizona where we face a 5 percent reversion of this year's budget based on 10 percent less than we actually have this year. The latter, of course, at this point is contingency planning and will hopefully remain so, but the prospect is real.

Those of us who find ourselves responsible for decisions on strategies for coping find that we frequently have more questions than we have answers. We worry a great deal about the long-term impact of the short-term decisions and adjustments we may be making. Many of us fear that the short-term easy decisions, made because we don't wish to face the harder questions, may in the long run be the undoing of the institutions we're attempting to guide. Can the humanities survive the demographic downturn and the shifting to vocational higher education which is occurring nationally? Will the liberal arts and sciences foundation of undergraduate education be sacrificed in the name of holding up credit hour production and preserving the institution's basic faculty complement? Will we, in the name of retraining or retooling, or whatever aphorism one wishes to apply to it, hypocritically and fraudulently convert humanists into professors of accounting, statistics, computer science, and marketing? Will we take an across-the-board percentage cut approach rather than face the harder resource allocation, programmatic reduction, and perhaps termination questions that we may well need to make? May we in the end find ourselves saying, as that deranged commander in Vietnam did, that "We had to destroy the village in order to save it?"

One of my greatest concerns is that on far too many campuses, the quality of planning is even in worse condition than it was half a decade ago. Too many administrators, I'm afraid, share the view that we should just hang on, ride it out, and hope that most of us will survive to the finish. However, if I can leave you with no other point today, it is that planning is more necessary now than it was in those marvelously halcyon days of growth. How marvelous in retrospect those years seem to many of us – new buildings, new programs, bricks, mortar, bulldozers, annual funds, onward and upward, larger and larger, greater and greater. My point is that any reasonably intelligent person could have managed growth, but it will require incredibly greater agility and ability and strength, mental, emotional, and physical, to manage contraction without it becoming an inexorable decline. I think it's going to require a totally different mind set, a different world view, and different administrators with a different gestalt.

In retrospect, you know, we were able to make mistakes during the period of the 50's, 60's, and 70's that cost our institutions tens of thousands of dollars, and it didn't really hurt. But not any more. We could experiment, try a flyer. Give tenure perhaps to that fellow in philosophy who really wasn't the best teacher/scholar but nonetheless played a mean game of poker and was a hail fellow well met. Because what we could count on was that Dr. Growth would be back the next year with another booster shot of 3 or 4 and, heaven forbid, some years 7, 8, 10, 12, 15 percent growth, and we could count on that budgetary antibiotic annually injected to cure all of our ills even if most of them were self-inflicted.

My point is that Dr. Growth doesn't make house calls anymore, at least not in academe, and probably not in the private sector either.

My concern is that we must approach planning today with something akin to the attitude expressed in the immortal words of Muhammad Ali, "We must be prepared to float like a butterfly and sting like a bee." Planning cannot be etched on steel or carved on stone but rather must be instead, at least from the perspective of a vice president for academic affairs, an agreed upon plan of multiple strategies to cope with any of the dozens of scenarios which our institutions may face, and we've got to be just as prepared to take advantage of an opportunity as we are to react to a discerned problem or danger. We confront what is both an obligation and an opportunity to become leaner, more efficient, more market oriented, and more flexible.

One set of reasons for doing these things would be that that's how we'll survive. But another motivation, which I think the Academic Vice President and the Business Finance Vice President must continue to keep in mind, is that we must use the opportunity to become not just more efficient and cost benefit conscious, *but*, even more importantly, to become qualitatively better at what we're about. There has been waste and inefficiency and misallocation of resources, and we all know it.

Those of us in central administration must clearly understand the essence of our institutional mission and having understood that, we must be certain that mission is equally evangelically shared by the deans of the colleges, the chairs of our departments, and, hopefully, the majority of faculty; and we and the President must clearly articulate that sense of mission to the regents and trustees who are ultimately responsible. For years those mission statements were a part of the rhetoric that we included in the beginning of our institutional catalogs and in our brochures but didn't really take very seriously. Now we can't afford not to. In times of fiscal constraint, programmatic evaluation and possibly cutback, discontinuance or termination, it is absolutely and vitally essential that those decisions are made against the background of what it is the institution has said it was going to be and believes it is. Our priorities and values must be established in terms of the centrality of some programs and activities and the more peripheral nature of others, and unless this is the case, I can assure you that we will make the wrong decisions. We must be certain that we understand and see clearly what is the essential core and worth of our institution. We must know its history, its programs, its faculty, its public service functions, and we must know them in qualitative as well as quantitative ways. Then we in central administration, with faculty advice and input as appropriate to our shared governance situation, must be prepared in the ultimate when all the information has been gathered, reflected, digested, and analyzed, to calmly, coolly, I'm almost inclined to say coldly, act to preserve what is best and to pare, reduce, and even eliminate programs, activities, faculty, and staff which can no longer be sustained. This is clearly not the easiest approach nor the most popular, but the alternative is to allow a general qualitative decline of our institutions.

One of my great concerns is that those of us who have tried to do it intelligently have probably prepared our faculty, our deans, our chairs, and even our presidents all too well for the trials and tribulations of the next two decades. We've been rightfully concerned and conscious, and perhaps I speak here for myself, about educating our communities to cope with the awful realities of what may be coming, but we may have created in part a self-fulfilling prophecy. Several years ago one of my good friends on our faculty in Baltimore who was at the point then retiring, in our final formal session together as dean and faculty member, said that we might have created a Frankenstein. He said we have so sold the "numbers game" to that academic community that numbers would become perhaps the sole basis upon which hard decisions, which if they had to be made, would be made.

Unfortunately, I'm afraid my friend was right about us, because we have conditioned ourselves, and we have surrounded ourselves by those we condition not to ever make a significant decision without "running the numbers." Our first response to nearly any question has become the classic, "What do the data tell us?" We absolutely cannot make it without our armor – our moral armor – of quantitative analysis and the ubiquitous printouts which become our standard of proof. The trap we may have dug for ourselves is that we have become absolutely terrified of making decisions on other than quantitative grounds.

In the decade and a half ahead of us, I submit that one of the chief contributions of the Academic Vice President will be to insist that decisions be as qualitatively based as they are quantitatively based. We must be prepared to reduce, or even eliminate, a program or activity on qualitative grounds as we are prepared to do on quantitative grounds. Not to do so, will be to wind up in 1995 qualitatively devastated just as we begin to recover nationally in terms of the demographic upturn as the grandchildren of the baby boom reach college age.

We must begin by satisfying ourselves that there is a reasonably clear understanding on our campus of the current mission of the institution, of the history that has gotten us to this point, and obviously of the institutional values and goals which have been the hallmark of the institution in the past. Then we must attempt to distill into a form that our faculty and administrators can both understand, and more importantly support, with respect to the current and future direction of the institution. Are there, for example, some commitments and values which the institutions simply cannot surrender or compromise without giving up its reason for existence, its distinctiveness, its institutional elan or spirit? It is critically important that we as central administrators understand these parameters. It is also important that we understand and have a way of assessing the mental health of the patient, i.e., the institution. We realize that with retrenchment, fluctuating enrollments, and declining resources, it is going to require adjustments. Central administrators must clearly understand the parameters against which those adjustments and trade-offs can be made. If we ignore this critical first step, then I can predict with certainty that we will make wrong decisions and run the risk of tearing the institution apart.

We must also understand what our institution means individually and collectively when we talk about quality or when we talk about excellence and distinctiveness. For example, if ours is a liberal arts college, then to define excellence, quality, mission, or distinctiveness in terms of the values of the research university or the community college would be absolutely a mistake of catastrophic and possibly fatal proportions.

What happens if you as a central administrator in a position of leadership and decision making conclude that for the institution to prosper, its view of itself must change? Its mission must be altered, and its direct development must move in a new and perhaps threatening direction. For example, yours is a traditionally liberal arts college, and you are convinced that in the area you serve and the market that you have customarily addressed, that the absence of a professional program in business administration or computer science is crippling. The institution through its processes of discussion, input, deliberation, etc. will need to address the question as you frame it for them.

A scenario might go something like this: "Here are the pros and cons of the decision I'm suggesting that we consider. Here are the trade-offs, if you like. We may need to consider phasing out and abolishing a small unproductive, perhaps hopefully not centrally important, department in order to gain the FTE faculty lines and resources to begin moving in the direction of a business curriculum. This will mean, we hope, a more healthy institution and an increase in the productivity sense than we previously had and, therefore, it is to the advantage of all of us."

The institution will have to decide: is that potential advantage worth the redirection of the institution's mission? If they conclude that it is, the decision will be widely supported, the institution will have come to grips with the fact that it's changed in terms of values and mission, and faculty and staff will feel good about what they are doing. On the other hand, the institution may decide that such a move is absolutely antithetical to what the institution has been and how it defines itself. In that case, the institution must be prepared to confront remaining what it's been by being smaller and facing cutbacks. Those are the trade-offs, and they must be clearly understood and accepted before proceeding.

Secondly, once this analysis has been done, the next step becomes that of a formal evaluation of the current activities of the institution both in term of instruction and institutional support in other areas, e.g., physical plant, student services, development, finance and management, etc. The process I'm going to suggest is from the vantage point of the academic sector, but it can be just as easily applied to the student services side of the house or the business and finance side. It's a matter of evaluating both quantitatively and qualitatively what we're doing – of attempting to assess with as much input and broad based support among the deans, department chairs, and faculty through the governance process as is possible.

We must focus on the "who and what" questions of instruction. A program of detailed, long-range academic planning must be begun if it does not already exist. There must be an effort on the part of the institution to leap ahead in time at least ten years and to try to assess what the community it serves and is dependent upon is likely to expect of that institution at that point in time. And, in light of all this, in what programmatic directions for development does this suggest that we should move? Every new program proposed should only be installed after this kind of careful, thoughtful planning assessment where the institution has identified 1) that a genuine societal need exists and 2) that we possess the faculty and the resources, or are able to acquire them, to mount such a program.

Having done that, we turn to an analysis of the "who and what" of instruction currently on our campus. Generally, faculty activity will fall into one of several categories. This may be true of entire disciplines, programs, or departments, or it may be true only of individuals or segments of a program, but *Category One* would represent that activity which is central to the instructional core of the institution's mission. For example, if as a result of analysis of the mission and future direction of the institution, a decision has been made that the liberal arts and sciences core which forms the basic freshman and sophomore structure of education will be maintained at least in the service function at all costs, then that establishes a certain preserved core of programs and disciplines which are in one category. A second category of programs, activities, and disciplines would result from an assessment on the part of central administration that these activities are so historically identified with the institution, or they are of such a qualitative nature, or they are "the draw programs" which bring most of our entering freshmen to the university, that they must be placed in a preserved category. For example, on my campus there would be general acceptance of the argument that the liberal arts and sciences dimension of our university education is so central to our institution as we define ourselves as we would preserve English and history, philosophy, language, mathematics, the sciences, creative arts, and make our reductions of programs elsewhere. Secondly, in this category for us would be our School of Forestry, our program in geology, and our undergraduate and graduate programs in biology which are of such high quality that they are hallmarks of the institution, and they would be placed in a preserved category. We would also include the College of Engineering and the School of Business which are both qualitatively strong and, perhaps, the two major drawing cards for new students.

In other words, for one of these reasons certain programs would be placed in a preserved category to be dealt with differently in terms of maintenance than some others which I will describe in a moment. There would be general agreement on my campus that the libraries, both the general library collection and the special collections library, are also to be placed in that preserved, not to be touched unless absolutely necessary, category.

A third category of faculty activity would involve identifying those disciplines and programs which are vocationally oriented or pre-professional which do not on the one hand form a part of the basic liberal arts and science core or do not fall in Category II because they are not fully recognized as being hallmark quality programs, or number three, can't be identified as major drawing cards for attracting new students. These will probably fall into the most vulnerable category.

However, it needs to be pointed out that there is a "half-way house" step which one can take with respect to any program and that is, you make a decision to eliminate and phase out the major but retain that portion of the curriculum which plays a service function to other programs. A case in point, although it is obviously in terms of today's market not a very likely one, might be if computer science were to enter a period of enrollment decline that appeared to be of considerable duration; one might propose phasing out the computer science major but retain a number of service courses which focused on skills and competencies which graduates would find useful and indeed necessary in other programs which were to be continued.

The category of Research and Public Service, which is obviously a major dimension of a faculty's activity pattern, would need to be assessed in terms of the decisions made earlier about the mission of the institution, similarly with public service. These are institutional judgments which can only be made on the spot consistent with the understanding of the mission and direction of the institution.

In the third part of the process, all departments, including departments which fall into Category I and II above, would be directed to analyze their curriculum and identify and define the core areas which that discipline and program must maintain if it is to continue to achieve the function assigned it by the institution. Obviously, it would not be acceptable for a department to merely list the entire major because there is no major that in a time of severe retrenchment cannot be pared and streamlined, even within those programs, those departments, colleges, etc. which have been identified as to be "preserved-at-all-cost activities." There may well be subsets of programs, concentrations, whatever, that are not qualitatively or quantitatively worthy of retention, and they can be phased out. What we're really asking is that the faculty and the leadership within the department identify the essential core, because it is quite possible that in a severe retrenchment situation, the service component of a discipline and the discipline core itself might be preserved even though the major would be scheduled for discontinuance. It is important to advise departments to list areas of study and programs rather than specific courses in identifying this core.

Within the library a similar kind of exercise will be required, and it's vitally important that communication between the library and central administration and the deans and chairs occur, because the library's collection reflects the university curriculum; and as changes are made in that curriculum emphasis, the library needs to shape its resources accordingly. Within the library itself, priority decisions will have to be made concerning, for example, whether human resources shall be shifted from acquisitions to public service areas. Obviously, this is a judgment which the institution again must make in light of its own history and mission.

What kind of data should the university be collecting, or should the department be asked to collect with respect to its program? I would suggest some obvious categories of standard quantitative data: credit hour figures per FTE faculty by discipline; credit hour cost by discipline; the number of majors currently active in the discipline; the number of graduates over the last three to five years by discipline; the percentage of credit hours produced by a program at a lower, upper, and graduate level by discipline; an analysis of staffing patterns over the last three to five years; the number of full-time faculty opposed to part-time faculty by discipline. In other words, has the department built itself a certain amount of part-time cushion, and what is the service function of the department – how vital is it to the liberal arts freshmen and sophomore mission of the institution? Another question might be: To what extent are its service courses utilized by other programs through cross enrollment. These data should be reviewed both in terms of changes in enrollment costs, etc., over the last three years. The institution similarly must commit itself to a fair process of annual evaluation. That is to say, of gathering data respecting comparable programs and facilities in similar institutions.

Departments should also be asked to forward to central administration the most recent qualitative analysis of their programs by the accrediting association if professional accreditation exists. Data on the post-graduation activities of former students should be provided, e.g., if the department is closely tied to pre-medical training, how well have its students done in terms of getting placement in medical schools, what have their scores on the MCAT exams been; similarly with pre-law programs, the burden of proof should be on the department to assess programmatic quality regularly.

Review at the All University Level

The critical next step of the process will require that the Vice President for Academic Affairs, together with his or her advisors and staff, conduct annually a review of all programmatic statements, statistical data, and financial data supplied by the administrative and finance side of the house. At some institutions it may be appropriate for the Vice President for Academic Affairs to form a retrenchment resource allocation committee made up of faculty, administrators, and staff to assure that his or her evaluation is as objective as possible.

When a problem is identified, for example, continuous significant decline in a program or cluster of programs or significant qualitative concerns about the program under review, the first step will be to ascertain whether all appropriate strategies for flexibility, adaptation, and program improvement have been applied or are likely to have any effect.

At this point an opportunity for response and for final review is essential. What might be recommended is the dean of the affected college or school and the chair of the affected department or program director shall discuss the report of the Retrenchment Reallocation Committee with the Vice President for Academic Affairs. In such discussion, the dean and chair would be asked to present a "burden of proof argument" as to why retrenchment should not be invoked. The Vice President for Academic Affairs might then take the matter to a final academic review body consisting perhaps of the Council of Deans in a special session together with the chief spokesperson of the faculty, be it the faculty senate or faculty association, the director of faculty development, the chair of the AAUP, or whatever is appropriate for final review. If after a complete discussion, the Vice President for Academic Affairs remains convinced that there is no alternative to retrenchment, then he or she shall so make that recommendation to the President.

The President bears the final responsibility for determining whether to invoke retrenchment and should feel free to utilize the resources of any individual, group, or office within the institution as well as outside consultants to assist in arriving at that determination. In the event the decision remains to retrench, the particular department may be requested by the President through the Academic Vice President to develop several reduction plans addressing the department's respective components. Of course, much would depend upon whether it was a liberal arts and sciences department or whether it was a professional or vocational program which played no general education role.

Procedures in the Case of an Externally Imposed Fiscal Emergency

In the event of externally imposed conditions, which might impact upon enrollment programs, faculty, or finances of the institution, the President should immediately convene the Retrenchment Reallocation Committee, present them with all pertinent information, make certain that they understand the time frame in which a decision must be arrived at, and seek their advice on alternative strategies. If the institution has done its homework and developed the qualitative and quantitative review and evaluation process outlined above, central administration should have available a significant body of objectively arrived at analytical data on which to make such decisions. Even when time is short, e.g., an externally imposed budget reduction because of revenue shortfall, a sudden enrollment dip, or inability of the funding agency to guarantee previously assured level of funding, the process, obviously within the time constraints involved, should be the same.

There must be a feeling, broadly understood, on the campus that the process is a fair and open one, a process to which and through which faculty have significant input. In most cases, faculty will not wish to make the final hard decisions. What they will insist upon, and what is absolutely essential, is adequate and fair input and involvement in the process.

In conclusion, the challenge to us, particularly to the Academic Vice President and deans, must be to plan for and to attempt to attain a higher quality in our programs, our faculty, and our resources in this time of possible retrenchment. For several generations, American higher education has believed fervently that because growth was everything, that to become smaller had to mean that one became poorer, particularly in a qualitative sense. I think we're past that point. We've come to believe that smaller may even be better – that merely having considerable amounts of resources and funds does not guarantee quality. We've proved that time and time again in our universities.

It is my belief that the primary challenge to central administration in the next decade and a half will not be just to achieve survival for our institutions but to actually improve the quality of what we're doing.

CHAPTER 14

Legal and Political Aspects of Program Closure

Stephen R. Hample

Assuming that the decision has been made to close an academic program, how should that closure be conducted so as to minimize legal and political problems? I will first discuss the legal issues and will then turn to political issues.

Legal Aspects

I approached this topic with trepidation for several reasons. First, any series of examples or general advice must be very carefully applied to a campus situation in which specific campus aspects are present. Second, I am not an attorney and have only learned these cases and principles through reading and discussion with officials at various campuses. Third, legal "precedents" vary over time. Books containing landmark cases may be outdated by new cases before the printer's ink has dried. Fourth, laws vary by states. Fifth, the campus attorney is virtually a necessity, and my comments can provide at most only a general background.

It is convenient to structure a case review according to the source of the complaint. That is, if a program closure were instituted, who might sue the campus?

Liability to the Faculty

Obviously, laid off faculty members may institute law suits. There are three major grounds on which they might sue. First, there are freedom of speech or first amendment concerns. In some cases faculty members have alleged that program closure was not predicated on sound academic decisions but instead was simply a subterfuge in retaliation for the faculty members' outspoken or unpopular views. The fact that such suits are not uncommon points out the need to document carefully the program closure decision so there can be no doubt regarding the reasons for that decision.

William A. Kaplin, in *The Law of Higher Education,* reviews a decision *(Mabey v. Reagan)* in which the court stated:

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> . . . whenever the state terminates employment to quell legitimate dissent or punishes protected expressive behavior, then the termination is unlawful . . .. we stress that this holding does not shield those who legitimately not reappointed. Where the complainant . . . does not meet his burden of proof that the state acted to suppress free expression, . . . the termination will stand (p. 164).

Another more recently decided case is *D'Andrea v. Adams* (1980), involving a tenured assistant professor of geography who made statements to a legislative budget sub-committee in disagreement with the administration's position that financial problems necessitated the closure of the geography program. The court noted that while a knowing or reckless falsehood was not protected by the constitution, the plaintiff assistant professor was careful to properly identify certain information in his statements to state officials as hearsay. The court concluded that the assistant professor was simply exercising his First Amendment right of freedom of speech and could not be dismissed because of his comments to the legislative budget sub-committee (NACUA *College Law Digest,* Vol. 10, No. 6, November 1980). The lesson to be drawn from the foregoing cases is that the success of law suits predicated upon the infringement of First Amendment freedom of speech rests upon whether or not the reason for the layoff decision was legitimate or was to punish an outspoken faculty member for his statements.

A second major theory on which a faculty member might proceed is the allegation that he was deprived of his constitutional right of due process. In this regard, the 14th Amendment states: ". . . nor shall any State deprive any person of life, liberty, or property *without due process of law* . . .." In this case, "liberty" includes the faculty member's reputation and "property" his expectation of continued employment. More specifically, the faculty member may allege that his "liberty" or "property" interest has been damaged by the institution's layoff decision and, therefore, that he (or she) is entitled to a due process procedure before that termination can be effective. Typically, what is being demanded is that a hearing to determine the need and advisability (as well as the order of employment termination) precede the decision to terminate. If the institution did not afford the requisite due process, then the faculty member may request that the termination be enjoined by the court and that damages be awarded. A landmark decision in 1972 (*Perry v. Sindermann*) held that:

> proof of such property interest would not, of course, entitle him to reinstatement. But such proof would obligate college officials to grant a hearing at his request, where he could be informed of the grounds for his non-retention and challenge their sufficiency.

Thus, the court is saying that *if* a contracted or other right to continued employment exists, then the faculty member cannot be deprived of that "property" without a proper hearing. Note that the reason for this is because the Fourteenth Amendment applies to due process in terms of the state (i.e., a state-supported institution) taking something away (i.e., his property interest in his job) from a person. Consequently, asserting this principle as grounds for lawsuit applies primarily to public rather than private colleges and universities. Note: *Perry v. Sindermann* did not deal with program discontinuance but with termination of probationary faculty.

How extensive must this due process be? That question was addressed in another case (*Johnson v. Board of Regents of University of Wisconsin System*) in which the court essentially said that the due process to be provided to faculty members must be "reasonable." What is reasonable? Four basic things should be provided. The institution should (1) furnish each plaintiff with a reasonably adequate written statement of the basis for the initial decision to lay off; (2) furnish each plaintiff with a reasonably adequate description of the manner in which the initial decision had been arrived at; (3) make a reasonably adequate disclosure to each plaintiff of the information and data upon which the decision makers relied; and (4) provide each plaintiff the opportunity to respond (Hendrickson, 1981). Of course, if the campus has adopted more stringent procedures, such as the AAUP recommendations, then those procedures must be followed (see Holloway, 1980). In summary, universities, at least in the public sector, must provide some reasonable due process to faculty members who have a contractual or some other *right* to continued employment (or whose liberty interest might be damaged), prior to that employment being terminated.

We now turn from Fourteenth Amendment provisions to contractual obligations, a third basis on which a faculty member might sue. Contractual obligations involve, of course, the written contract of employment, but this contract may be interpreted in light of other facts or terms not recited in the actual written document signed by the faculty member and the institution. In *Krotkoff v. Goucher*, the court interpreted tenure as it was contained in the contract in light of general academic practices. This broad interpretation was required because the written contract did not have a specific definition of whether tenure applied when financial exigencies dictated program closure. The plaintiff alleged that her tenure was violated in that financial exigency was not an adequate cause for proper termination of employment. However, the evidence revealed that the institution and other faculty members thereof believed that a financial exigency had always been understood to take precedence over tenure. Thus, the court looked at a general understanding and general academic practices to decide this case in favor of the institution. A written faculty contract may also be held to include numerous *unreferenced* appendices such as a faculty handbook or other faculty documents or Board of Regents policies. For example, in *American Association of University Professors v. Bloomfield College*, the court found the faculty code to be part of the employment contract.

Tenure is often mentioned in faculty contracts but is often not well defined. The locus of tenure may be questioned. That is, if a faculty member is tenured, is that tenure tied to a specific department, and are specific conditions guaranteed in addition to continuous employment? For example, if a person is on a split appointment between two departments, does the person have tenure within both departments so that, if one is closed, he must be employed full time in the other? The "locus of tenure" may also be alleged to apply system-wide. That is, if a faculty member is to be laid off in a program at one campus, is his tenure specific to that campus, or is it specific to employment in the system necessitating that he be granted employment at another campus in the system where a vacancy exists? If a faculty member was once granted tenure and then became an administrator during which time his original program was dropped from the campus, and if the administrator then ceases his administrative employment and claims tenure, in which department must he be employed? If a tenured faculty member is not laid off but is assigned different job responsibilities and different conditions of employment, is that a violation of tenure? If an administrator at an institution has a contract in which it is simply noted that he or she has tenure, does that mean that the person has tenure with respect to his or her administrative position or only to an instructional position within a faculty rank? Any of these questions regarding tenure may give rise to a law suit.

Having reviewed three major areas, freedom of speech, due process, and contractual obligations under which a faculty member may lodge a law suit, we now turn to what will constitute the primary defense to such law suits. That primary defense (at least relative to this conference) is the validity of the institution's declaration of a financial exigency. The method in which the layoff decision is reached and the way in which the financial exigency is documented are obviously important in defending against First Amendment claims (e.g., that a declared financial exigency is simply a pretext for dismissing a faculty member who has been outspoken). To substantiate this defense, the college must prove not only that a *bona fide* financial exigency exists but also that the termination of the faculty member is, indeed, compelled by this financial exigency (this substantiation was established in the *AAUP v. Bloomfield* case). If we assume now that the financial exigency is bona fide, has been adequately documented, and a decision has been made that some type of financial sacrifice must be made, several questions arise. First, must the campus look at only short-term rather than long-term solutions? Specifically, must the campus liquidate its long-term assets rather than dismiss a faculty member who is tenured? Under the current state of the law, the answer seems to be no. In the *Krotkoff v. Goucher* case, the court referred to the earlier *Bloomfield* case and stated:

> whether the sale of land to secure financial stability on a short term basis is preferable to the long term planning of the college administration is a policy decision for the institution. Its choice of alternatives is beyond the scope of judicial oversight and the context of this litigation. Hence, the emphasis upon the alternative use of this capital asset by the trial judge in reaching his conclusion that a financial exigency did not exist was unwarranted and should not have been the basis of a decision.

After quoting from that *Bloomfield* decision, the *Krotkoff* court continued:

> the same principal, we believe, should be applied to the dissipation of an endowment . . . stated otherwise, the existence of financial exigency should be determined by the adequacy of a college's operating funds rather than its capital assets (Kaplin, 1980).

Another question is whether or not the financial exigency can exist as to a specific program, or must it affect the entire campus. In *Scheuer v. Creighton University* the court stated,

> we specifically hold the term "financial exigency" as used in the contract of employment herein, may be limited to financial exigency in a department or college. It is not restricted to one existing in the institution as a whole.

In *Brenna v. Southern Colorado State College* the court also agreed that financial exigency could be restricted to a specific program and that even a tenured faculty member could be laid off while a non-tenured faculty member in another program could be retained (Hendrickson, 1981, p. 30).

An important point must be made that even though the institution appears to have a reasonable amount of flexibility and a good legal defense where program closure was caused by a financial exigency, that flexibility and defense can quickly go out the window if the campus's own stated procedures are not followed. Remember that the term financial exigency usually implies a campus defense, i.e., a claim that termination of tenured faculty members was unavoidably caused by financial problems. That defense is quickly lost if the campus has agreed to something in the way of hearings or other procedures to be followed which have not been fulfilled. In this regard, in *University of Alaska v. Chauvin*, the court found in favor of the terminated faculty member and stated:

> We decline to detail the range of procedural rights which must be afforded where a tenured employee does not receive a new contract because of financial exigency, because in this case the university itself set up procedural guidelines for the committee.

The court decided in favor of the terminated faculty member, because the university proposed to use a procedure established for terminations for cause and that, while these procedures would have been reasonable and effective if they had been followed, the university did *not* follow them. Hence, the faculty member at this public institution was denied due process, and his lawsuit was successful (See Holloway, 1980, p. 89).

Liability to Students – With the faculty, there could be three possible bases for bringing lawsuits. For student lawsuits, however, claims under the freedom of speech provision seem unlikely. That is, it is unlikely that a student would bring, much less prevail in, a lawsuit alleging that a particular program is being closed simply because a student had been an outspoken critic of the university. Another theory for bringing the lawsuit might involve the concept of due process which must be provided by a public institution before depriving the student of his "property right" to *continue* in the program being terminated. Usually, however, the normal academic regulations, notices, and opportunities for student petitions and appeals satisfy this due process requirement. Thus, as far as student lawsuits are concerned, we are left with only the third major theory for lawsuit, the contractual obligation. Although there is usually no written contract between a student and the institution, the courts have generally held that a quasi-contract does exist. The university promises, through its catalog or other admissions materials, to provide instruction for a certain set price, namely the tuition. In consideration for this, the student pays registration fees and expects that promise to be kept. Although no written contract has been signed, a legally enforceable contract may, nevertheless, be held to exist. Eileen Jennings, writing in the *Journal of College and University Law*, concludes that: "the case decisions do accept that the relationship between students and the university may be viewed as contractual, at least in some respects." She goes on to conclude that when any litigation arises in relation to this informal contract, however, the courts almost invariably defer to academic judgment and tend to find in favor of the universities. There is one major exception, however, which is most important to our discussion today on program closure. Jennings writes,

> except in program termination cases, the courts' refusal to overturn university decisions on academic issues is most clear . . . . Because of the inherent judicial bias toward universities, especially on academic issues, perhaps most surprising is the fact that in all the cases attacking the closing down of an academic program the courts found in favor of the students (p. 220-221).

A case relevant to this issue is *Peretti v. Montana,* in which a state-supported postsecondary vocational school offered a program in aviation technology. The program was designed to cover a period of six academic quarters during which the student would obtain a private pilot's license and skills and knowledge which would be valuable in seeking employment in the aviation industry. After the program was started and students were enrolled, the appropriations to the center were reduced by approximately 12 percent. The trustees reviewed programs and noted that the aviation technology program was the highest cost program that they offered and decided that it should be eliminated at the end of the current academic year. The students in the program felt that they were left "high and dry" and sued the vocational center, plus the State of Montana, alleging breach of contract and asking for damages. The court ruled in favor of the students holding: First, a legally enforceable contract did exist. Second, damages were suffered by the students from the breached contract (namely, that they had spent time and money and obtained only one-half of the instructional program which would not be sufficient for them to gain favorable employment). Third, that the technical center did have other financial options available to it such as eliminating one-year programs. Finally the court concluded that the state is liable for damages sought by the students. The moral of this case would seem to be that in conducting a program closure the students should be afforded some due process opportunity to voice their objections and that the university or college should seek methods of closure that would minimize any damage to the students. The procedures may include phasing out the program slowly so that students currently enrolled could finish their program. Or, some type of transfer to another nearby institution could be arranged. Or, perhaps the program could be merged in some aspect with another similar program so that the students could have an opportunity to continue their education at the same institution. Additionally, the institutions should also insert appropriate disclaimers in its catalog and other materials stating that academic programs may be terminated because of financial emergencies and that students cannot be guaranteed the right to complete any particular program. However, a showing that fundamental fairness was given to the students would seem to be the best defense.

Liability to Other Groups – Other groups who might sue are perhaps a bit difficult to imagine and will depend on each campus's unique situation. However, at least two can be suggested. First, grant or bequest stipulations may be tied to a program being considered for closure. Has an endowed chair or some other large donation been given to the university for that specific program or for a specific purpose within that program? If so, and if the program were closed, what would become of that financial support? Could it legally be transferred to other areas? These questions create the potential for lawsuits being filed by past benefactors. Second, non-university agencies or institutions could also pose potential lawsuits. For example, if the campus is considering closing a nursing program, is there an agreement with a hospital or at least a long-term understanding that nursing students would provide essential staff for that hospital? Has a partnership been established with another campus to jointly provide instruction in the program being terminated, and if so, what is the obligation to the partner institution? Are there long-term purchasing or rental agreements tied to the program being terminated? And if so, does the campus intend to discontinue these long-term contractual services? The outcomes from potential lawsuits from groups such as these are difficult to predict but should, nevertheless, be considered in addition to those from students and faculty.

Responding to Suits – Even though you, as an institutional administrator, feel that the law is on your side, you should be careful before responding to any type of lawsuit or any type of threatened lawsuit. Unfortunately, legal costs may be so high that it is much cheaper to simply settle out of court. *The Chronicle of Higher Education,* in its February 9, 1981 issue, reported that the University of Minnesota faces over one-million dollars in a salary suit brought by faculty members at that institution. It may be cheaper to offer general settlement terms rather than risking a large award of damages plus legal fees (including those of the other party), plus expending the time and effort required to prepare your own legal case.

In addition to the prospect of high costs in terms of dollars and in effort, you should also remember that the "little guy" has an inherent advantage. Courts, especially juries, will tend to construe ambiguous areas most strictly against the institution and in favor of the individual faculty member or the individual student on the theory that the university, as the dominant party, would have had the greater ability and opportunity to clarify conditions of employment, etc. and should have done so. Also, the judge and jury are human beings and may make decisions based on misinterpretations or that at least seem in error to those in higher education administration. Thus, if you are threatened with any type of litigation, you should quickly consult your own attorney to consider the seriousness of the threatened lawsuit, not only in terms of its legal basis but also in terms of the cost to your campus in time and dollars required to defend against even an apparently frivolous lawsuit.

Political Aspects

The Closure of Moo U's Milk Production Technology Program – During the late 1960's, the milk production technology program at our hypothetical Moo U. was begun as part of a general desire to expand programs which applied technology to societal problems. By 1982, proposed federal budget cutbacks threatened to reduce the support for this and other programs. Also, by 1982 student enrollment had shifted away from these areas and toward accounting and engineering. The milk production technology program required considerable operating funds for the dairy barn and associated equipment. Therefore, after conferring with the local campus Board of Visitors, the President announced that the program would be closed at the end of the current year.

The program's ten faculty members were the first to react. Five of the ten were not tenured, and three of the five who were tenured had always been paid from endangered "soft" federal funds. These ten faculty members realized that they were unlikely to find positions elsewhere on campus, so they formed a faculty coalition (in the absence of a faculty union) and invited labor leaders to the campus. With the advice of the labor leaders, the faculty members not only retained legal counsel but also sought support from trade unions which serviced the campus. Public relations aspects were not overlooked. Over the years the Department of Milk Production Technology had built up its own following among certain farmers in the state. As a result of phone calls to these farmers, the state's Milk Producers Association approved a resolution condemning the closure of the program and asking that the Commissioner of Higher Education and the Legislative Appropriations Committee seriously review this campus decision. Naturally, this resolution was widely carried in newspaper and television reports.

The students soon followed the lead of the faculty. The Student Coalition Against Program Closure led the editorial comments which soon appeared in the student newspaper. They sought support from the student member of the State Board of Postsecondary Education, from student legislative interns, and from young members of the legislature. The student coalition gained unexpected support from the uncle of one student who happened to be one of the Governor's political advisors. With this technical advice, the students joined the faculty members in developing a coordinated political effort to encourage the Board for Postsecondary Education to overrule the closure decision.

A subgroup of the student coalition formed a new group, the Developing Nation's Student Protest Group. These foreign students argued that the milk production program was particularly important to developing countries and that its closure discriminated against low-income, minority groups in this country and abroad. The foreign students suggested to USAID that federal support be withheld from *all* campus areas unless the program was continued.

Another group became involved, because the milk from the program's dairy barn had been provided at low cost to three day care centers in the community. The program's closure would eliminate this benefit, and letters of protest were soon written by day care directors and concerned parents.

The continuing publicity caused several alumni of the program to add their support toward keeping the program alive. The publicity also apparently persuaded the few students who had recently applied for admission to the program to apply to other campuses.

As the conflict came to a peak, the anti-closure coalitions began to attack the campus administration, charging that the number of administrative employees had risen at the expense of faculty and student needs. Also, the rather divisive statement was made that the milk production technology program was academically superior to at least two demonstrably poor quality programs that were not being closed. Particular press coverage was given to coalition charges that the campus still owned a golf course but could not afford to keep the program open.

The final result was that the State Board for Postsecondary Education narrowly voted to overrule the campus president and to require the program to be continued for at least two years. The Board was sympathetic to the President's plight but felt that it must respond to widespread political pressure. The deciding factor was a statement from the governor's office that additional funds for the program would be recommended in the next year's tentative budget.

The campus aftermath included these results. The faculty did not unionize because of this one incident, but the potential for future unionization was increased. The potential for increasing enrollment in the program was seriously damaged through the adverse publicity and the widely held opinion that milk production technology was a "lame duck" department. The two other departments which had been accused of being academically weak continued to suffer image problems, and their faculty members remained less than cordial to their milk production colleagues. When the university sought to increase research funding for the program for the two-year period, it found that the department's two most productive researchers had accepted job offers from other universities. Few options remained for the campus administration which resigned itself to suffering with the problem for two years and to working on mending broken political fences.

What can be learned from the Moo U. experience? Note that the concerns and protests were all extremely negative. None of the groups offered to help increase the university's funding or to help strengthen the program. Rather, each group fought for its own special interest and sought to change the slicing of the budget rather than adding to the overall size of the financial pie. Consider also the administrative strain and effort expended in responding to these protests. Could that effort have been better expended in seeking positive responses prior to making the campus closure decision? For example, would some of the effort have been better invested in establishing faculty committees to seek increased funding, or increased enrollment, or methods of merging the program into other areas? Even though the discovery of a magic solution would be extremely remote, would the involvement of the faculty be politically worthwhile? Would including a student government representative on the committee ease student concerns? Could the responsibility (or planning, if you prefer) for the closure be shared through this increased involvement and through a challenge to the department to meet certain conditions? Rather than announcing program closure, should the administration have told the department that certain levels of enrollment and research activity would be needed to keep the program alive? Might such an action not only shift responsibility for a possible closure to the department, but might it also even result in sufficient improvement to eliminate or at least postpone closure of the program?

Increased faculty and student involvement is not a panacea for political problems associated with program closure. Each campus has unique characteristics, and in some instances too much involvement over too long a period of time may be just as detrimental as a suddenly announced closure. Perhaps the best general advice is for each campus to review its past traditions and experiences and to consider the political liabilities of proposed actions. Only then can it reasonably decide on the amount and type of administrative effort to be spent in moderating the political problems associated with program closure.

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CHAPTER 15

Retrenchment: Faculty and Staff Policies

C. Keith Groty

Fiscal stress has become a way of life in higher education in many places. While short-term fiscal stress may be met with policies that defer the maintenance of physical plant or major purchases, long-term fiscal stress inevitably translates into cuts in the human resources and realignment of the organization's goals. Before any specific action can be instituted to change faculty and staff policies, and before retrenchment activities can be initiated, a plan must be established to determine the desirable modes of implementation. And before this the problem must be carefully studied for its magnitude and scope. Let us consider three phases of the overall process: 1) determining the problem, 2) identification of the areas and methods of retrenchment, and 3) retrenchment policy implementation.

Determining the Problem

For any retrenchment strategy concerning faculty and staff to be successful, those affected should receive a clear explanation of the problem facing the institution. In addition, the courts have held that tenure rights cannot be voided without a clear showing that the institution is faced with a real financial crisis.[1] Information provided to faculty and staff should include the history of the problem, some definition of its magnitude and longevity, and an assessment of the impact on the mission of the institution and its human resources.

Considerable attention has been given to the terminology used in outlining fiscal problems of higher education institutions. The word "exigency" has taken on meaning beyond that of the dictionary through the actions of the American Association of University Professors (AAUP). To foreclose any possible misinterpretations, institutions have sought to use alternative language which will meet the requirements of the courts, while not implying any obligation to follow the policies of the AAUP. However, when an institution has adopted the AAUP policy as its own, it is obligated to follow the policy (mere changing of terminology does not void the obligation).

In defining the scope of the fiscal problem, the courts have held that evidences of sizable operations deficits are sufficient indicators. In addition,

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where it can be shown that there are declining enrollments, the courts have held that actions are appropriate if taken to reduce the staff involved. These indicators need not be found on a university-wide scale nor must deficits extend to the capital assets. It is sufficient that the shortfall in both operational funds and enrollments be connected to the specific and identifiable programs being retrenched.

Determining the Areas and Methods of Retrenchment

The process of problem identification and the establishment of retrenchment strategies necessarily overlap. It is helpful to think of retrenchment strategy formulation as a second phase.

In this phase, attention must be given to the process of input. The method of input will vary between various types of personnel because of differences in existing policy and in the role of faculty and staff. Where academic governance systems are available, utilization of these systems is critical. While governance systems tend to operate slowly and might appear to be an unattractive input methodology, it is nonetheless important to recognize these systems and prepare for the post-retrenchment period. Failure to utilize the governance system will add to the negative responses which can be anticipated when adverse personnel actions are taken. Therefore, whether it be academic governance for faculty input, negotiations with collective bargaining representatives for unionized personnel, or staff councils where they exist in non-union settings, it is important that existing systems be utilized.

Where the existing systems have inadequate procedures, additional support or redefinition of procedures may be required. Administrative assistance may be necessary to guide the existing processes in defining the scope of their deliberations. In addition, expansion of the normal method of receiving personnel input may be desirable to broaden the base. Where committees limit input to their own members, it may be necessary to establish a wider forum through open hearings, questionnaires, telephone "hotlines," or specific invitations to key faculty and staff.

Implementation

To the degree that the first two phases of problem definition and retrenchment strategies have been carefully and successfully carried out, the process of implementation becomes less onerous. Even under the best of circumstances, implementation of any strategy is stressful and potentially damaging to the long-run interest of the organization. Elimination of programs, reduction of certain services, or elimination of faculty have the potential for disruption of efforts toward mission. Therefore, persons responsible for implementation of the strategies should be involved in formulation of strategy and definition of the problem. Effective implementation must relate not only to the problem but must be consistent with the intent of the representative bodies that developed the strategies.

Developing a Philosophy for Retrenchment

For the process of human resources retrenchment to be effective, adopted concepts must be followed with consistency. It must be determined at the onset whether deliberations concerning both the definition of the problem and the methods of retrenchment are to be conducted in open public settings or through private sessions. Whichever course is chosen, it should be utilized consistently, lest suspicions arise that some processes are genuine while others are conducted only for the pacification of certain constituencies. Likewise, when the various procedures produce written documents, the availability and distribution of these documents must be consistent with the philosophy of open or private deliberations. Seeking *perceived equity* is as important as the achievement of *actual equity*. Where suspicions arise about the deliberative procedures it is unlikely that an objective evaluation will occur on the merits of the outcomes of those procedures.

Short-Term Retrenchment Strategies

Short-term can be defined as "cash-flow" shortfalls, which do not require a complete rebudgeting. The most common of these strategies takes the form of "across-the-board cuts" and is generally unrelated to concerns of duties or responsibilities of the affected units. Such a strategy, while appearing to have equity, may fall far short in actual equalization because of timing, anomalies in the existing budget, etc. Since the budgets of institutions of higher education are dedicated primarily to the support of human resources, when across-the-board cuts can no longer be taken in funds dedicated to human resources, other strategies must be considered.

To minimize the impact on persons already in regular employment of the institution, it may be desirable to place a "freeze" in the hiring process until the short-term fiscal deficits have been corrected. This strategy, however, if instituted over a long period, will create additional stress within the organization because position vacancies never seem to occur when and where the organization can adjust. The pressures to "unfreeze" positions soon create political problems within the organization. This weakens the effectiveness of the strategy.

To control hiring for longer periods, consideration can be given to a more selective "freeze" on refilling of vacated positions and establishment of new positions. This control over positions has the advantage of saving not only salary costs but generating less demand on the fringe benefit insurance systems. Since most organizations tend to staff beyond minimum needs to accommodate lost time through illness, vacations, and turnover, the elimination of positions loses its strategic value at the point where further cuts would result in elimination of desirable functions.

As with hiring freezes, control over vacating positions does not address the elimination of human resource commitments where no turnover occurs. It may be necessary to institute layoffs or to reschedule the work force through voluntary reductions in the working day, week, or year. However, voluntary rescheduling of the work force may not lead to the desired retrenchment.

Layoffs, as a strategy, can encompass temporary or long-term separation from the work force. Temporary layoffs in higher education may take the form of short-term shutdowns of the institution during holiday periods or when programmatic requirements permit a reduction in support staff during breaks in the academic year. Long-term layoffs may be feasible when the financial stress eliminates funds for development or maintenance in the physical plant, and positions dedicated to those functions are [illegible] longer needed.

For many years faculty personnel have been employed on both academic year and calendar year appointments. A change in employment policies to schedule support personnel in a like manner is another viable alternative. However, such rescheduling may not generate the anticipated level of savings in compensation, since in many states non-academic personnel are eligible for unemployment compensation during periods of inactivity. In such cases a better alternative would be to reschedule throughout the entire calendar year to reduce the total number of hours worked and compensated.

Other short-term strategies include subcontracting to produce a savings through the use of outside personnel, increasing the use of student employees who are generally paid at a lower rate of pay, and utilizing temporary personnel supplied by community agencies. Each of these strategies must be evaluated for its reliability to the functions performed, as well as the cost savings. An additional strategy worth consideration is the use of retired personnel as either paid or unpaid volunteers. As with all the strategies mentioned, the duration and the progress toward meeting financial stress goals must be constantly monitored and adjusted. No specific strategy can be assumed to be continuously desirable over long periods of time and changing circumstances.

Long-Term Strategies

Long-term strategies can be defined as reductions in the budgetary base of the institutions or any of its parts. Such reductions flow from a change in missions or programs. Prior to implementation, each strategy must be evaluated for its impact on the balance between the academic mission and the essential support services. Focus must be maintained throughout the process so that the institution eliminates its weaknesses and maintains or improves those programs, services, and research components upon which the future will be built. A realistic evaluation of support services must be conducted to assure that the academic program is not diminished unnecessarily or impeded by inadequate support.

As programs and the related human resources are reduced or eliminated, attention must be given to seniority and ability. Care must also be taken to preserve the gains of affirmative action while recognizing the role of seniority as a criterion in defining job rights.

The magnitude of fiscal stress may vary between types of funds and may create a disparity which must be analyzed for its impact. Where general revenue funds are more severely restricted than auxiliary, grants, or contracts sources, a differential impact on human resources will be evident as well. However, when adjusting the work force, source of funding should not be the only criterion for determining which positions are subject to elimination in the budget reduction process. Criteria to evaluate individuals should include seniority, field of competence, skills, and future potential within the institution.

When addressing any long-term strategy, the time frame for the reductions must be considered. While some reductions may be possible by instituting immediate layoffs, this strategy may be inappropriate for faculty or persons who are close to regular retirement age. Therefore, the time frame for implementation of the strategies may vary by weeks, months, or even years.

It is also important to recognize the natural processes which occur within the organization that may add to, or detract from, the effectiveness of any strategies adopted. If eliminations are to occur within a work force experiencing a high rate of turnover, instituting layoffs prematurely may be dysfunctional. The use of a longer time frame and allowance for personnel eliminations through regular turnover may be more efficient. On the other hand, it may be necessary to encourage turnover in areas which have historically been stable by offering voluntary incentives before instituting layoffs.

Strategies Related to Long-Term Retrenchment

Before instituting specific human resources-related strategies, the organization should undertake a review of its present administrative organization, policies, procedures and practices, staffing, and support services. The savings that result from the elimination of ineffective organizational units and related personnel are advantageous not only for salary and benefits savings but also for minimum negative impact upon the remaining organization. This is also true where it is found that policies, procedures, or practices, rather than adding to the efficacy of the organization, are counterproductive. Policies developed to govern human resources are related to the status of the organization and may be counterproductive as the organization is changed. For example, policies encouraging full-time employment may not be cost effective in times of stress when program eliminations make it desirable to utilize more part-time personnel.

Many services performed within an institution of higher education occur in response to certain cycles of activity. A readjustment of the cycle of activity could prove to be more efficient in the utilization of human resources. A shift of the academic calendar or time of wage increases may result in long-run savings.

As faculty and staff positions are identified for elimination, it may be desirable to facilitate transfers within the organization rather than face the costs of displacement. Providing some form of retraining may be more efficient than displacing individuals and paying the costs of contract "buyouts" or unemployment.

With the passage of age discrimination legislation, it is no longer a viable option to force the retirement of individuals within the protection of the law. However, individuals may volunteer to retire if a system of incentives is established and a program for personal planning and assistance is offered. Faculty, in particular, may select early retirement if they are allowed to phase down their duties and responsibilities while maintaining a level of income and benefits providing a transition to retirement.

There are advantages of flexible scheduling as a method of increasing the productivity of the human resources. In times of retrenchment, the use of flexible scheduling can open the door to individuals who might not want full-time regular scheduling but whose performance and productivity meet the needs of the institution.

Work-sharing, like flexible scheduling, can offer an opportunity to employ or retain individuals without incurring the higher costs associated with full-time employment. Work-sharing also has the advantage of creating a new pool of candidates. This new pool could increase the quality of performance, while at the same time reduce the quantity of financial commitment.

When it becomes necessary to displace personnel, whether faculty or staff, several strategies besides straight-out termination are available. The political, as well as practical, value of outplacement services makes it a desirable strategy, particularly for faculty and professional employees. Outplacement services may be provided through current staff or by contracting with agencies who provide specialists. In either case, personnel who are assisted in securing employment outside the institution create opportunities for retrenchment.

Where individuals have contractual rights by institutional policy or law, creation of a system of "buyout" is a viable option. While buyouts are generally related to contractual rights, it is not the only condition justifying the strategy. Buyouts, like early retirement incentives, do not have to occur on a short time frame. Options can be offered to individuals to allow some control over the timing of their exit and the amount of the buyout received.

Before instituting a system of buyouts for tenure faculty, it is important to understand the legal status of tenure under conditions of fiscal stress. The courts have held that a governing board has inherent power to establish a new policy to terminate tenure faculty even though tenure was conveyed to that faculty before the policy was put into effect.[2]

It has also been determined that implementation of any policy to terminate tenure faculty must be devoid of any constitutional right violation and arbitrary or capricious behavior on the part of the administration or governing board.[3] Release of tenured faculty does not have to follow the guidelines of the AAUP on fiscal exigency, unless such guidelines have been adopted as institutional policy.[4] Neither does implementation have to be institution-wide or by tenure and non-tenure status but may be program or quality justified.[5] Some courts have held that the institution has a responsibility to make a good faith attempt to find a suitable position within the institution.[6] However, this good faith attempt does not extend to the provision of retraining, relocating, or severance pay, unless already an institutional policy. The buyout strategy for tenured faculty, even in view of the court decisions, is desirable more from a political standpoint than one of contractual rights.

Long-Term Impact – Any discussion of faculty and staff retrenchment policies would not be complete without concern for the long-term impact upon an institution. Insecurities which result from the process of retrenchment permeate the institution and affect even those persons whose status is obviously secure. The perceived equity of any program may be as important, or more important, than the actual equity that the program achieves. The long-term confidence of the faculty and staff toward the governing board and administration will set the tone for morale well beyond the retrenchment.

FOOTNOTES

[1] Krotkoff v. Goucher College, 585 F.2d. 675 (4th cir. 1978); AAUP v. Bloomfield College, 346 A.2d. 615 (N.J. app. 1975); Scheuer v. Creighton University, 260 N.W. 2d. 595, 601 (Neb. 1977); Bignall v. N. Idaho College, 538 F.2d 243 (9th cir. 1976).

[2] Steinmetz v. Board of Trustees, 385 N.W.

[3] Vallejo v. Jamestown College, 244 N.W. 2d.753.

[4] Mabey v. Reagan, 537 F.2d.1036.

[5] Brenna v. Southern California State College, 589 F.2d.475.

[6] Browzin v. Catholic University, 527 F.2d.843.

PART VI

NACUBO SESSION FOR COMMUNITY COLLEGES

CHAPTER 16

Financing Community College Missions In an Era of Scarce Resources

Richard C. Richardson, Jr.

During the past two decades, the number of two-year colleges has tripled while the number of students has increased eight-fold. According to the American Association of Community and Junior Colleges, 52 percent of all new college students will enroll in a two-year college for the current year. But growth in number of students and institutions is only part of the picture. Community colleges have also become more diverse in missions and the services they provide as a part of a strategy to increase enrollments and to thereby secure additional resources to serve even more students. The community college has been an almost perfect example of Drucker's service organization where importance is measured by size, and success means achieving a larger budget than the previous year (Drucker, 1973).

The events of the past two decades have left community colleges with more part-time students who require the same services as full-time students but who do not generate the same revenues; with increasing numbers of remedial students whose previous educational attainments make them more costly to serve effectively; with a growing diversity of expensive services such as child care centers, expanded financial-aid offices, tutors and learning centers; and with greatly expanded delivery systems including colleges without walls, television media centers, and other technological and human resource commitments. This explosion of clienteles, services, enrollments, and delivery systems has not been matched by corresponding commitments of additional dollars from local,

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state, or federal sources. Increasing administrative costs, reduced student services, and even greater use of lower paid adjunct faculty, all provide evidence of adaptations administrators have had to make as the tension between continuing expansion and available resources has increased (Richardson and Leslie, 1980).

Very recently, as indicated in the Breneman and Nelson (1981 a,b) study, it has begun to appear that community colleges may be a victim of their own success. They are no longer bit players on the educational scene. As important competitors for state tax dollars, they have been subjected to an increasing range of regulations and constraints. Sometimes the criticisms are indirect, as when legislators complain about some of the courses community colleges offer. In other instances, the constraints are more direct, as when legislatures refuse to alter funding formulas or to provide new dollars for programs and services community colleges would like to offer. The flexibility and autonomy that community colleges enjoyed in the sixties and seventies has increasingly been constrained as a function of their growth and their increasing importance as consumers of available tax resources.

Resource constraints are only a part of the picture. Of equal importance has been the changing public attitude toward academic standards and access. The civil rights movement was undergirded by the assumption that providing equal access to postsecondary education would reduce social and economic inequities (Bowden, 1981). We learned, however, that differences in socioeconomic background, previous educational preparation, motivation, and a host of other factors produced an unbelievably high rate of attrition among the new student populations we sought to serve.

In the then new St. Louis Community College District in the mid-sixties, a major newspaper published a front page story which featured the headline "Half the Community College Students Flunking or Dropping Out." Something had to be done. Our response, and we were by no means atypical, was to develop courses of a remedial nature to try to correct the deficiencies in the educational preparation of many of the students who were coming to us. We also redefined the criteria for success. Students, we said, were better off if they attended a community college whether or not they graduated. Earning a degree was secondary to the real purpose of the community college which was to develop everyone to his highest level of potential.[1]

As the emphasis upon degree attainment began to shift, and as more and more courses were created for people who were not capable of pursuing traditional programs, the standards to pass a given course or even to attain a general associate degree began to change much in the fashion of the changes that comprehensive high schools had previously undergone. You are familiar with the rest of this story. In 1963, aptitude test scores began an 18-year decline which may or may not have been halted during the current year. The change in standards for achievement was by no means limited to the secondary schools. Recent studies in California have expressed concern about the number of students transferring to four-year colleges and universities from some very large community colleges as well as the performance of those students after they reach the four-year level (California Postsecondary Education Commission, 1981).

Researchers such as Astin (1978) have found that even in studies that control for aptitude, previous performance, and demographic characteristics, students entering two-year colleges with the intent of earning a baccalaureate degree have significantly less chance of persisting to the degree than those who enter four-year colleges directly. Breneman and Nelson (1981, a, b) emphasize this point in their study. Indeed, their discussion of its possible implications may well be the single most controversial statement in the study from the vantage point of two-year college leadership.

From a different perspective, the fact that the multiple opportunities available in comprehensive community colleges may divert baccalaureate degree candidates into two-year career programs and thence, directly into the labor market should be regarded as a commendation rather than a criticism. This is particularly true when consideration is given to the current surplus of baccalaureate degree holders and the reverse transfer phenomenon, where as many as 15 percent of the students attending many community colleges already hold the bachelor's degree and are trying to obtain the skills necessary to get a job. I'm certain we waste some resources by the high attrition rates in many two-year colleges. However, providing six years of education at public expense to complete a two-year career program doesn't have a lot to recommend it from an economic point of view either. In brief, efficiency in producing more bachelors degrees than our economy needs or can absorb requires careful examination as a criterion for assigning missions to two-year or four-year institutions.

It would be helpful, of course, if we had evidence that students not persisting in transfer programs were completing career options as an alternative. Unfortunately, no such evidence exists and, in fact, the weight of community college efforts has been on access rather than achievement, a priority that is abundantly clear from comparing statistics on enrollment growths with those involving completion of degree or certificate programs.

In the decades of the eighties, the priorities of public policy are shifting from access toward achievement. A number of states have implemented competency-based testing to determine whether students completing four years of high school should be awarded degrees. In Florida a test is under consideration to determine whether students who have completed two years of college study have the competencies to move into the junior level at a university. In Arizona, a new teacher competency test is used to determine whether graduates of colleges of education are eligible for certification as teachers. The test measures basic skills which colleges of education do not teach, and so it is more of an evaluation of what students bring with them to the junior year than it is an evaluation of what they learned after they got there. The impact of this requirement will be to force a more careful assessment of the competencies students bring with them from community colleges since a majority of those entering colleges of education in Arizona are transfer students.

Much of the confusion about mission and identity stems from this new emphasis on achievement. Minorities are no longer graduating from segregated school systems and are beginning to raise with some insistence the question of access to what (Olivas, 1979)? Legislators are demonstrating limited tolerance for educational inflation where students attend school for longer periods of time to avoid downward social mobility. Those who earned degrees when the possession of such credentials implied both a higher level of literacy and enhanced employment opportunities have become disenchanted with a system that produces credentials guaranteeing neither and with increased public costs. Of course, the roots of many of these problems lie beyond community colleges, but their impact does not.

The external environment in which community colleges function has changed. No longer can most institutions afford to turn away qualified students. From surplus we are entering a period of scarcity. Accustomed to the growth, we have attempted to forestall the inevitable stabilization or even decline of enrollments by seeking new clientele. Many of the new clientele have problems which make them more expensive to serve. Public policy makers have not been as enthusiastic about our pursuit of new clientele as we have been. Consistently they have refused to provide us with the additional funds that we have required. We have responded by seeking greater efficiency and productivity. To date we have managed to keep all the balls in the air. But what do these forces hold in the future?

Selznick describes the responsible leader as one who avoids both opportunism and utopianism (Selznick, 1957). He defines opportunism as the pursuit of immediate, short-run advantages in a way inadequately controlled by considerations of principle and ultimate consequence. It is sort of a pragmatism carried to its ultimate extreme. By contrast, utopianism hopes to avoid hard choices by a flight to fantasy. Selznick says, "Utopian wishful thinking enters when men who purport to be institutional leaders rely on insufficiently defined purposes to guide their decisions." He is also critical of leaders who hope that the solution of technical problems will solve institutional problems and describes the reliance on technology to solve our problems as another manisfestation of utopianism.

Why do responsible leaders need to avoid opportunism and utopianism? According to Selznick, the failure to avoid these two extremes carries with it the risk that institutions will not accomplish the right kinds of change during periods when change is required and, as a result, will become attenuated and confused. By attenution he means that organizations do not establish a distinctive direction but rather become vague and abstract and thus unable to influence deeply the work of their staffs. He sees this happening when "the development of institutional goals is an afterthought, a way of rationalizing activities actually resulting from opportunistic lines of decision."

I don't need to point out the implications of Selznick's discussion of leadership for community college administrators. In fact, one of the examples that Selznick used to point out the problems of image and mission clarity was a public junior college. Clearly community colleges have some reasonable claim to being described as opportunistic. The use of marketing concepts has been advocated as an approach for identifying new clientele and a way of positioning the institution to respond to the needs of these new groups. When confronted with the growing scarcity of resources and the problems of serving a more diverse clientele effectively, many community college administrators have suggested that these problems will be resolved by technology. Increasing productivity has also been seen as an important response. Those who have advocated technology and productivity as responses to current issues seem in some important respects to be overlooking the labor intensive nature of community colleges as well as the fact that by most standards, they are already extremely productive institutions. Beyond that, Selznick suggests an additional problem. The search for more efficient ways of accomplishing current activities may overlook the need to evaluate the relevance of those activities to a changing external environment.

An issue for all administrators is whether they will choose to pursue greater efficiency in current practices or attempt to exert leadership to alter practices where that is necessary to preserve institutional integrity. Within the context of this larger question, I believe administrators will face three issues in the next decade.

The community college appears at a historic crossroads in terms of its mission. One route leads to the folk school, organized around the needs of adults and focused on cultural and vocational interests not requiring degree attainment. The second and more historic route involves concentration on programs and services designed to assist students to attain the baccalaureate degree or entry to an occupation that could not have been attained without education beyond high school. The extent to which these two directions may be incompatible is evidenced not only by tensions which currently surround discussions of community college mission but also by the arrangements for adult continuing education that have evolved in most Western European countries where the traditional institutions have retained a concern for outcomes and achievement. In the American community college, the "all things to all people philosophy" has contributed in important ways to current concerns about mission and image.

A second major issue involves defining and seeking quality. The quality issue is confused by an absence of generally accepted measures of its presence or its absence. Quality thus becomes something that everyone can claim because no one can identify. At least, that is how most community colleges have dealt with issues related to quality during the past two decades. Now, however, there are pressures to equate quality with outcomes. There is also the issue of credibility. Most businessmen and legislators would argue from personal experience that given fixed resources, numbers and quality vary inversely. That is, the more you do of anything the less likely you are to do it well. Increasingly, there is concern about the ability of the community college to do all of the tasks it has undertaken for all of the clientele it has identified with a resource base that in most states is either fixed or declining in terms of constant dollars. This issue has deeply divided faculty and administrators. Many faculty believe that the transfer function and career education should be core concerns. They do not agree that mission expansion has been accomplished without declines in quality.

Administrators, on the other hand, believe that mission expansion is both desirable and necessary. If full-time faculty are uncooperative, or if the resources make it impossible to employ full-time faculty, then adjunct faculty will be employed. Administrators do not believe the quality of the educational experience they offer has been significantly altered by the methods they employ.

The quality issue leads very naturally to a third major concern that surfaces with increasing frequency in discussions among community college administrators. Decreasing numbers of faculty and other institutional staff are willing to commit themselves to the achievement of institutional priorities.

Most full-time community college faculty are well prepared to teach academic students who are credible candidates for the baccalaureate degree. A lesser number have the skills and experience to provide career-related instruction. Very few have either the competence or commitment to work with students whose lack of reading and writing ability suggest their accomplishments will probably never exceed modest improvements in basic literacy.

Few states have analyzed the cost of dealing with seriously underprepared or handicapped students. The more common approach, as in Arizona, has been to fund such efforts through the same formula as the transfer program. Since effective services to underprepared or handicapped students are often more costly than teaching transfer students, some of the costs of mission expansion have been funded by taking resources away from other programs through such techniques as using more part-time faculty or establishing higher minimum numbers to keep advanced classes. Faculty have been affected by this process in several ways:

1. Where they have been willing to contribute to the development of new programs and services to meet the needs of new clientele, the financial resources have often been less than the minimum they judge necessary for effective programs, resulting in feelings of frustration.

2. The extensive use of adjuncts has been justified by pointing to student evaluations which reported no significant differences in student satisfaction between classes taught by part-timers and those by full-time staff. This has led to problems of self image for full-time faculty who interpret these statements as implying that anyone can come in off the street and, with little or no preparation, do as well as they.

3. Perhaps most important of all, faculty find themselves increasingly in a no-win situation. They have more students who have more serious deficiencies, and they are expected to teach them effectively with fewer resources. One result has been the loss of commitment as faculty question their opportunities for success and find the odds against them lengthening.

The issues of the eighties are likely to center on institutional integrity and quality rather than institutional diversity and quantity. The question foremost in many of the meetings I have attended during the past several years has been, "How do we get more money to carry out our mission as we want to expand it?" Perhaps the time is near when we may wish to ask instead, "Given available resources, what priorities should we establish to make certain we do well those things that are most important to our community?" This line of questioning could easily lead to some very difficult decisions including such questions as

1. Is the community college primarily an educational institution, or should it assume more of the responsibilities of a social welfare institution?

2. Is it better to serve everyone to some minimum level or to serve specific constituencies with a defined level of excellence?

3. How can differences in value preference for priorities among boards, administrators, and faculty be resolved without reducing faculty commitment below the level necessary for effective implementation?

These are important questions, and the answers are by no means obvious. The issues they represent have developed over more than two decades and are unlikely to respond to the quick fix. Administrators who choose Selznick's role of responsible leadership will need patience and a long view of the historical forces at work.

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FOOTNOTES

[1] For a detailed report of this experience, see Moore, William, *Against the Odds*, San Francisco: Jossey-Bass Publishers, 1970.

PART VII

NACUBO SESSION FOR FOUR-YEAR COLLEGES AND UNIVERSITIES

CHAPTER 17

Responses to Fiscal Stress: Back to Basics – The Law

Arthur L. Gillis

The literature is replete with documentaries on how institutions of higher education meet and overcome, albeit temporarily, fiscal difficulties. The greatest number of essays seem to concentrate on those marginal activities where cutbacks or rearrangement of resources will not adversely affect academic programming. Most of these activities seem to be "hold the line for now" or "band-aid" repairs which, hopefully, will hold for the duration of the fiscal crisis. The University of Connecticut has responded to past fiscal stress in a similar manner. The University has generated a few novel ideas to save money, kept abreast of the literature, and copied the ideas of many other institutions. The results have been less than adequate and have now led to a far different approach to meeting fiscal stress. As Cyert and March note:

> . . . when an organization discovers a solution to a problem by searching in a particular way, it will be more likely to search in that way in future problems of the same type; when an organization fails to find a solution by searching in a particular way, it will be less likely to search in that way in future problems of the same type. Thus, the order in which various alternative solutions to a problem are considered will change as the organization experiences success or failure with alternatives.[1]

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As the University of Connecticut entered the 1980-81 academic year and prepared its 1981-82 budget proposal, it was quite clear that its resource requirements, as defined by its administration, endorsed by its Board of Trustees, and modified by the Connecticut Board of Higher Education, would not gain the needed endorsement of the Connecticut State Government. Through the course of the state's review, the operating budget request of the University steadily shrank until the final, approved budget package represented a net increase of 0.17 percent over the then current year.

This cut in approved state resources left the University almost $1.4 million short of its projected need for energy, $3.1 million short of its need for staffing support, and three years in a row with relatively no increase in its library materials and instructional equipment funding.

The 1980-81 budget for the University was seriously impacted when the governor imposed a recision, cutting the approved Appropriation Act allotments to the University by 5 percent for the first quarter of the year. This cut also carried a mandate not to lay off employees. The management of this fiscal dilemma was quite difficult, given institutional commitments and labor agreements plus state statutes governing University operations.

Connecticut statutes prohibit line item transfers greater than five-thousand dollars without the approval of a joint legislative/executive finance committee whose agenda is set by the governor. Savings in any one budget item – personal services, other expense, equipment, grants and aid – could not be used to offset any other needs. All such savings reverted to the state treasury. The internal institutional obstacles to effecting the needed savings programs included an aged and large, energy-inefficient physical plant, an already inadequate supply and equipment budget, extremely limited non-state capital, and an organization and staff not well versed in the management of fiscal stress. The basic institutional responses, including postponements of approved actions, a vacancy freeze, cutting and reallocating, adjusting budgetary standards, proportioning budget cuts, scrambling for non-state funds and program reduction through reductions in part-time staff hiring, had been used in past years and were to be continued one more time. It was evident, however, that management had few real options to deal with fiscal stress and limited authority to "cure" the institution's problems.

It also became increasingly evident that fiscal stress compounded the University's choice of management strategies. The University fit the following illustration perfectly:

> When slack resources abound, money for the development of management planning, control, information systems, and the conduct

> of policy analysis is plentiful even though these systems are relatively irrelevant to decision making. Under conditions of abundance, habit, intuition, snap judgments, and other forms of informal analysis will suffice for most decisions because the costs of making mistakes can be easily absorbed without threatening the organization's survival. In times of austerity, however, when these control and analytic tools are needed to help minimize the risk of making mistakes, the money for their development and implementation is unavailable.
>
> Similarly, without slack resources to produce "win-win" consensus-building solutions and to provide side payments to overcome resistance to change, organizations will have difficulty innovating and maintaining flexibility. Yet, these are precisely the activities needed to maintain capacity while contracting, especially when the overriding imperative is to minimize the perturbations of adjusting to new organization equilibriums at successively lower levels of funding and activity.[2]

At this point, the University's administration began a major review of its operations and operating procedures. This led to the inventorying and analysis of its statutory standing, plus other legal limitations and latitudes. A review of state law clearly indicated that many of the most important business and fiscal operations of the University were controlled by offices external to the institution. Control of University resources through state pre-audit regulations, processing formats, and restricted product or service choice greatly hampered University flexibility in meeting fiscal stress.

A research effort to gather information about other states' institutions found that Connecticut's problems were similar to the problems facing most public higher education institutions. Slowly, yet steadily, institutional autonomy or administrative stewardship had evaporated with coordinating boards, other state agencies, the statehouse, and the legislature providing increasing amounts of leadership and control.

The tradition of institutional independence from state interference had become a fiction. Essentially, the states provided the funds for the operation of public universities and the statutory support creating boards of control. In the past few decades, as public universities have grown in size and importance, other state agencies and coordinating boards have begun to supersede institutional autonomy. Statewide personnel systems, purchasing and warehousing centralization, computing networks, statewide pay and benefits programs, and statewide capital programming have effected a reapportionment of institutional autonomy with numerous state agencies the primary beneficiaries.

Changes which may have been undertaken by public officials in recognition of justifiable concerns for productivity, accountability, and cost consciousness have, in many instances, developed a new species of state agency whose appetite for public higher education operations seems insatiable. In Connecticut this model of central control and standardization has gotten to the point that the University's stationery logo could no longer be determined by the institution once the "Statewide Committee on Standardization" was formed.

Preparation of a plan to gain greater flexibility and more easily absorb the impact of reduced state resources commands a great deal of time and attention. University staff documented the operational trail of numerous activities. University counsel reviewed statutory matters included in case law and the variety of accommodations possible to meet University objectives. Coupled to all of these efforts was the practical understanding of various other state agencies and their staff members' positions on University matters. The review of these findings led to an action-program for the current year as well as the out-years.

The University's administration determined that statutory redefinition could provide the best pathway to fiscal and management flexibility to better meet both the constraints and opportunities facing the University. Two areas of organizational review appeared promising. The first was fiscal flexibility – the ability to move available resources within the approved state budget from one budget category to another. The second area of interest was tuition revenue – the ability to solely assess, collect, invest, and budget student tuition revenue.

> Public officials are forced to make changes within a structure of laws, rules, procedures, and regulations (e.g., merit systems, line-budget items, and special boards, commissions and authorities) that limit alternatives, rigidify decisionmaking, and fragment authority. For the most part, these constraints were installed during periods of growth to control budget expansions and are limited tools for managing budget contractions.[3]

The University of Connecticut's budget exceeded $250 million in 1980-81. The state general fund provided approximately $105 million of that total. Within the state's general fund support was almost $9 million of student tuition revenue. State rules and regulations governed the University's spending, allocation and savings programs involving tuition. Furthermore, student tuition rates could be set by the University trustees, the Coordinating Board of Higher Education, or the state legislature. All tuition revenue was directly deposited with the state and became part of the State's General Fund annual allocation to the University. The statutes governing tuition provided

> . . . the Board of Trustees of the University of Connecticut shall fix fees for tuition . . . and shall be used solely for educational purposes at said University of Connecticut . . . tuition means a direct charge for instructional programs, which charge will be deposited to the resources of the General Fund . . . .[4]

In actual practice, the University's last increase in tuition in 1975 (initiatec by the Board of Trustees) provided a one-year increase to state appropriations The dollars representing the increase were thereafter folded into the State General Fund appropriations with the spirit of the extra income literally cancelled through a reduced "growth rate" in state appropriations. The introduction of recisions and the withholding of appropriations further eroded the state compact with higher education as programs were literally approved through the budget process, funded, undertaken and, in mid-year, required to return unspent, yet committed funding.

Using an extensive review of the literature and other states' laws, including reports from the Western Interstate Commission for Higher Education,[5] the American Association of State Colleges and Universities,[6] the State Higher Education Executive Officers,[7] and the University's institutional research files, model legislation was drafted. The purpose of the legislation was twofold: (1) establish a separate, non-appropriated tuition fund and (2) allow for the unrestricted transfer of dollars within the tuition fund to the limit of its holdings.

Although tuition increases could later add revenue to the University's budget, the proposal's intent was to return to the administration some of the prerogatives necessary to manage the University. The vehicle for effecting the new program was legislative change. The proposal stated

An Act Establishing Tuition Funds for The University of Connecticut

> Sec. 1(a) . . . tuition means a direct charge for institutional programs . . . .
>
> Sec. 2(b) The Board of Trustees of the University of Connecticut is authorized to establish and administer a fund to be known as the University of Connecticut Tuition Fund. All tuition revenue received by the University . . . shall be deposited to the resources of said fund . . . (d) Commencing December 1, 1981, and thereafter within sixty days of the close of each quarter, the Board of Trustees shall submit to the Joint Standing Committee on Appropriations and the

> Office of Policy and Management . . . a report on the actual expenditures of the . . . tuition fund . . ..
>
> Sec. 4 There is hereby created a short-term investment fund . . .. The interest derived from the investment or reinvestment of funds of . . . the tuition fund (and) shall be paid to . . . Board of Trustees . . ..[8]

The logistics of informing, educating, and selling the tuition program were massive and involved every University constituency, plus support from the Board of Trustees, alumni, friends, and key legislators. The basic thrust of the discussions centered on doing more with less in a highly accountable manner.

The tuition legislation package resulted in split funding for educational programs (Table 1). The State General Fund would continue to support the core items of expense, including personnel, energy and library costs. The Tuition Fund would be used for student and part-time labor, educational supplies, and educational equipment.

The tuition dollars were not additive but were offset through an adjustment in the State General Fund appropriation. The University, however, now had a budget with two educational program support components.

Table 1

	University of Connecticut Consolidated Budget Funding Strategy	
Budget Items	**State General Fund**	**Tuition Fund**
Personal Services		
Full-Time & Other	X	
Student Labor	X	X
Other Expenses		
Energy	X	
Telephone	X	
Travel	X	
Postage	X	
Deferred Maintenance	X	
All Other Expenses		X
Equipment		
Library	X	
All Other	X	X

Grants and Aid		
Loans	X	
Human Rights & Opportunities	X	
Work Study	X	
Graduate Fellowship	X	
Tuition Refunds		X
Tuition Remission		X

The University's efforts in the tuition reform program spawned similar efforts in a host of other areas. A review of the University's interface with other state agencies (Table 2) illustrated a potential revenue windfall of major proportions. Tuition control would allow income to be invested, recision-proof, and flexible in use. Changes in state purchasing rules, which included a 10 percent administrative surcharge, could save additional thousands of dollars. University efforts directed at institutional control in planning, engineering, and contracting capital projects of two hundred thousand dollars or less (approximately 85 percent of all projects) might also account for significant savings.

Another revenue-producing effort involved the University's lease of land to a not-for-profit corporation to develop a research park adjacent to the main campus. Other efforts in student aid, computing, auditing, and gaining control over endowments involved legal research and statutory change or authority delegation from other state agencies.

Table 2

University State Interface
1981

Item	Value*	External Control	Change Process
Tuition	$ 9.0	State Legislature	Statutory
Purchasing	$18.0	State Department of Administrative Services	Delegation/ Statutory
Capital Progs.	$20.0	State Department of Public Works	Statutory
Land Transactions	$20.0	State Property Review	Delegation
Student Aid	$ 3.0	Student Loan	Statutory
Computing	$ 3.0	State Data Center	Delegation
Auditing	$ 0.1	State Auditors	Delegation
Investments/ Endowments	$ 5.0	State Comptroller	Delegation

*Millions of dollars

Each of these interface areas represented a fiscal relief effort where there were neither added costs nor academic program retrenchment. Rather, looking at the law and either changing the law or using the current statutes could relieve the University of a good portion of its fiscal stress.

The statutory program for tuition which was developed and passed in Connecticut is not without pitfalls. It does not eliminate declines on a crisis-to-crisis basis; it does not foreclose General Fund recisions or bad budget years; it does assume that we are not in a temporary disequilibrium but rather a broad-scale, long-run fiscal decline in which internal, patchwork solutions will not suffice.

Looking at the law may very well hold great benefits to other public institutions. The process of statutory change is not easy, and the results of some changes can be less than desirable. No institution can fully insulate itself from fiscal stress. It may very well be that the greatest benefit to any university emerging from such a legislative initiative is the deepened sensitivity and understanding of other state officers, legislators, and the public to the fiscal and management problems confronting the most basic of state resources.

> . . . our challenge is to effect a new consensus and appropriate modus operandi within the permissive framework afforded by the current form.[9]

FOOTNOTES

[1] R. M. Cyert and J. G. March, *A Behavioral Theory of the Firm.* Englewood Cliffs, New Jersey: Prentice-Hall, 1963, p. 124.

[2] Charles H. Levine, "Organizational Decline and Cutback Management," in *Managing Fiscal Stress,* Charles H. Levine, editor, Chatham, New Jersey, Chatham House Publishers, 1980, p. 15.

[3] Levine, Charles H. op. cit. p. 5.

[4] *General Statutes of Connecticut,* Vol. II, Chapter 165, Sec. 10-119a.

[5] WICHE, *Indexing Tuition to Cost of Education: Implications for State Policy,* Boulder, Colorado, WICHE, Information Clearinghouse, 1980.

WICHE, *Tuition and Fees in Public Higher Education in the West,* Information Series - 3, Boulder, Colorado, WICHE, Information Clearinghouse, 1980.

[6] American Association of State Colleges and Universities, *Annual Tuition and Fee Room and Board Charges Among AASCU Member Institutions, 1979-80,* Washington, D.C., AASCU Office of Governmental Relations, November 1979.

[7] State Higher Education Executive Officers, *State Tuition and/or Required Fee Policies for Public Postsecondary Institutions,* Boulder, Colorado, SHEEO/NCES Communication Network, January, 1979.

[8] Connecticut Public Act No. 81-468, *An Act Establishing Tuition Funds for the University of Connecticut,* Summer, 1981.

[9] Hamilton, Edward K., "On Nonconstitutional Management of a Constitutional Problem," in *Managing Fiscal Stress,* Charles H. Levine, editor, Chatham House Publishers, Inc., Chatham, N. J., 1980, p. 70.

PART VIII

RELATED RESEARCH PAPERS

CHAPTER 18

The Financial Conditions Project

Stephen Campbell

In 1971 it was estimated by several researchers that up to 70 percent of the collegiate institutions were either headed for or were already in financial difficulty. Now ten years later the reports continue, yet the vast majority of these institutions have survived. Are these institutions still in financial difficulty? If "financial difficulty" does not mean failure within ten years, what does it mean? Or, did some unforeseen set of events prevent the predicted failures?

Three presumptions then provide justification for this study:

1. Many institutions, it is reported, are in financial trouble.
2. Institutions in financial trouble cutback services or programs or they fail.
3. Institutional cutbacks and failures limit opportunities for an appropriate higher educational experience for some students, thus limiting the achievement of national higher education goals.

Purpose

With some regularity, specific questions are raised about the possibility of Federal assistance to schools in apparent financial trouble. This study was intended to assist the Department of Education in its ability to respond when the question arises "What do we do about financially failing institutions?"

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In this regard, ED must understand the relationship between deteriorating financial conditions and national higher education goals. Further, since states and the institutions themselves are responsible for raising the major share of revenues and managing the institutions, their role must also be fully understood in framing a federal policy.

Methodology

The study was conducted by the American Council on Education and the National Association of College and University Business Officers.

In addition to the internal ED review process, an advisory committee made up of college business officers, association personnel, and federal officers provided guidance for the project.

The project had two very specific tasks. The first was to build an analytical framework that measures how the financial condition of institutions affect national goals. The second task was to provide the Department of Education with study findings in such a way that ED staff might easily use them to develop policy implications.

The analytical phase of the study consisted of two activities: (1) the compilation of a set of institutional indicators using existing or recently collected data and (2) a series of site visits to validate findings from the empirical analysis.

More specifically, a research data bank was compiled from data collected directly by the Department of Education and from a survey of finance data using the ACE Higher Education Panel. Data were collected on institutional finances, characteristics, staffing, and enrollments for fiscal years 1975, 1976, 1977, and 1978. The data file did not include information on service academies; seminaries; institutions with fewer than ten undergraduates; institutions with expenditures per student more than three standard deviations from the mean; medical schools and medical centers; other separate health professional schools; schools of art, music, and design; schools of law; schools of nontraditional study; and proprietary institutions.

From the research data bank a set of 38 indicators for each institution were calculated. These indicators were grouped into eight categories: (1) size (enrollments and full-time faculty counts), (2) reserve and endowment levels, (3) revenue proportions, (4) expenditure proportions, (5) per student or per faculty member expenditures and revenues, (6) scholarship-related ratios, (7) student ratios (part-time proportions and student-to-faculty ratios), and (8) debt indicators.

Ratios were calculated for each institution or system in the file. Simple regressions were run between each possible pair of indicators for each year in the file. The change in each ratio was also calculated for the period 1975 to 1978.

The second activity in Task 1, site visits to 37 institutions, was intended to determine more directly how institutions were in fact responding to financial stress and to test if the indicators developed during the analysis phase reflected time conditions on the campus.

Major Findings

1. It appears possible to monitor institutional financial conditions, although it is difficult to *predict* financial difficulty. This is due in large part to the length of time between the onset of financial difficulty and the availability of data.

2. Financial difficulty is spread unevenly among independent institutions. Twenty-nine of the one hundred and ninety-two regional independent higher education markets in this country are affected. Analysis of 1978 data show that nationally, only a small proportion of students are in financially weak institutions, however, in specific areas the proportion of affected students could be significant.

3. Enrollment fluctuations, a commitment to low tuition, and high fixed costs have caused a significant proportion of independent colleges with full-time-equivalent student enrollments of less than 1000 to be without financial reserves.

4. Public institutions appear to have become less financially flexible as faculty have become more tenured and personnel budgets claim a higher proportion of the institutions' operating budgets.

5. Most minority and low-income students attend institutions that are in better-than-average financial condition. Black students, however, are somewhat more likely to attend less financially stable institutions.

6. No major crises were evident in the financial conditions of the institutions surveyed. Neither the numbers of students, the numbers of institutions, nor the numbers of markets affected by financial stress suggest serious difficulties for the industry as a whole at the time of the survey.

7. Events that could radically alter the current financial condition of institutions are precipitous enrollment increases or declines and major policy changes in federal or state student financial-aid programs.

8. Current federal aid to institutions has been effective. In particular, institutions participating in the Developing Institutions Program have been able to offer increased programs and services to students. Unanswered policy questions remain, however, with regard to the type of aid and the length of assistance.

9. Current trends and the suggestion of future difficulty indicate the need for improved monitoring of the financial condition of all institutions by both the federal government and by states. This applies not only to the program operating budget but to scientific and technical equipment as well as the physical plant.

10. Since state educational needs and opportunities may be difficult to define at the national level, consideration should be given to encouraging states to develop special support programs for institutions consistent with state master plans for post education.

The study findings suggest that overall, higher education at the time of the survey was vigorous in spite of apparent financial decline of selected indicators. But the authors were quick to point out this could change rather significantly with changes in federal programs; thus close monitoring of the financial condition of institutions in light of federal goals was thought to be highly important now and for the near future.

Site Visit Procedures

The purpose of the site visits was to examine firsthand how institutions are responding to financial stress and to test if the indicators of stress developed during the analysis phase reflected true conditions on campus. The project staff and advisory committee selected the 37[1] institutions in the site visit sample based on a set of criteria that emphasized potential contributions to an assessment of financial condition. Financially stable institutions are underrepresented because they are less likely to provide illustrations of responses to financial stress. The following institutional characteristics entered into the selection process:

- changes in institutional mission emphasis,
- changes in financial resources levels,
- changes in enrollments,
- changes in absolute faculty counts,
- changes in public support availability, and
- changes in private support.

The sample institutions are located in six regions throughout the country, and most of the institutions within each region are located within a 50-mile radius. This clustering allowed the staff to explore market competitiveness among institutions.

The sample also reflects a diversity in type and control of institutions. The following summary of the sample identifies the type and control of each institution visited in each region.

Northeast

- Two Year, Public
- Four Year, Public
- Four Year, Private (5)

Mid Atlantic

- Two Year, Public
- Four Year, Public (2)
- Four Year, Private (3)

South

- Two Year, Public (2)
- Four Year, Public
- Four Year, Private (3)

North Central

- Two Year, Public (2)
- Four Year, Public (2)
- Two Year, Private
- Four Year, Private

Central Plains

- Two Year, Public
- Four Year, Public
- Two Year, Private
- Four Year, Private (3)

Northwest

- Two Year, Public (2)
- Four Year, Public
- Four Year, Private (3)

Prior to these site visits the project advisory committee met to review the site visit plans and to comment on a proposed questionnaire that would be used to provide structure for the interviews. After initial concurrence, the committee and the project officers chose four schools as field-test institutions to provide reactions to the interview instrument and to assess the adequacy of this methodology for the study's puposes. After modifications based on the field test visits, the questionnaire was submitted to the Federal Education Data Acquisition Council (FEDAC) for clearance. Approval was obtained in September 1980. The site visits began in mid-October and concluded in December.

Typically, the site visit interviewers spent one day on each campus. They interviewed the president or chancellor, the chief academic officer, the chief business officer, the director of admissions, the director of student financial aid, and the director of institutional research (if any).

Caveats

The site visits were designed to be exploratory and were intended to provide a partial census of actual and potential responses to stress. These responses should be regarded as illustrative and not necessarily representative. To that end the following caveats are given to waylay any hasty or ill-founded extrapolations to higher education institutions in general.

1. There are more than 3,000 colleges and universities in the United States. These site visits included only 37. Nothing in this chapter should be extended to the remainder of higher education without careful consideration and study.

2. The marketing, financial, and academic factors that led to the stress observed at most campuses visited are indeed real and current problems. However, these problems vary greatly both in kind, in degree, by sector, and by state. There exists no general solution applicable to all campuses. Each community college, college, and university will need to work out its own solution within the broad limits of statewide educational policy.

3. Almost every administrator acknowledged the demographic decline of the overall college-age population. But at only two institutions were even modest projected enrollment declines used as the basis for planning during the next five years. The expectations of most were for steady enrollments at current levels or for slowly increasing numbers due to new programs and new types of students, such as adult learners. The fact that only two institutions are preparing for the management of decline should not lead to hasty conclusions about "Pollyanna" optimism among a majority of institutional administrators. The other institutions in the sample should be judged in the context of the actions they are taking to maintain enrollments. These actions encompass expanded and improved programs dealing with recruitment, retention, institutional fund raising, and academic review.

A major conclusion of the site visits was that the financial indicators developed during the analysis phase did reflect the financial condition of the institution. Where the basic data had been reported incorrectly, the analysis did not match campus conditions.

A corollary finding was that the indicators reflected campus conditions only for the period analyzed (1975-1978). They were not able to predict conditions for Fall 1980. Many of the previously stressful situations had been or were in the process of being "turned around" during the period when the interviewers made their site visits. Institutional administrators explained the changed conditions in two ways: 1) economic conditions in Fall 1980 contributed to enrollment increases nationwide and 2) the stressful conditions themselves mandated a response.

The remainder of this chapter highlights the different responses to stress encountered at the campuses in the marketing, financial, and academic areas.

Marketing Stresses and Responses

All those interviewed in the area of student recruitment and admissions recognized the national decline in the number of 18-year-olds. Many were able to recite specific statistics, such as the projections that there will be 26 percent fewer 18-year-olds in 1994 than there were in 1979. Most also realized that the national aggregate data do not show the wide regional disparities that will occur. Many institutions had already experienced enrollment declines in the mid-1970's, and most interviewees assumed that the imminent demographic declines will translate into enrollment declines for them if their institutions do not pursue various active programs. Administrators identified four stresses in the marketing environment:

- decline in the 18-24 year-old age group,
- poorer academic preparation of entering students,
- decline in higher education participation rates, and
- decline in twelfth-grade completion rates.

In response to these factors, administrators at 60 percent of the institutions indicated that they began to recruit undergraduate students "more aggressively." Thirty-eight percent said they were recruiting with about the same degree of vigor as before. Those interviewed at one institution said they were recruiting less actively because the new technical programs they had initiated were so successful that they had to turn away well-qualified applicants.

Administrators were asked to identify new techniques and programs for recruitment which they had used or were expecting to use in the near future. The techniques mentioned can be categorized under the following five broad headings:

1. Techniques involving direct student contacts
    a. More direct mail/regular mailing to prospects
    b. Personal letters from faculty and deans to outstanding applicants
    c. Visits to places of employment
    d. Telephone recruitment
    e. Installing toll-free telephone number
    f. Personal contacts by institutional personnel at vacation spots
2. Techniques involving high schools
    a. Cooperative programs with high schools

    b. Faculty involvement in recruiting
    c. Informing high schools of admissions status of students
    d. Concentrating on non-productive areas
    e. Extending recruiting efforts into Spring
    f. Encouraging campus visits

3. Techniques involving alumni, trustees, and churches

    a. Enlarging alumni network
    b. Geographical area gathering, using alumni
    c. Use of trustees in recruiting
    d. Targeting of parishes for recruitment after church services

4. Techniques involving publicity

    a. Increased use of newspapers, radio, television, and college-day coverage
    b. Develop consumer-oriented literature
    c. Develop new logo, image, and publications
    d. Emphasis on new/different target populations
    e. Use of mobil van
    f. Information booths, staffed by faculty and admissions personnel, at local shopping malls on weekends

5. Other techniques

    a. More competitive honors scholarships
    b. More scholarships for local area residents
    c. Improved information management through computer assistance, for example, word processing of inquiry letter and use of commercial mailing lists of prospective students
    d. Contacts with business/industry regarding employee training needs

Of new student services initiated in the past few years to enhance the recruitment program, four were most commonly mentioned. These were programs to recruit minority and women students, special programs to recruit international students, remedial or developmental education programs, and special exceptions to the normal admissions requirements. Other services begun or anticipated include:

- special programs for non-degree students
- special programs for nontraditional students
- emphasis on programs relating to employment
- scheduling short-term programs
- scheduling more classes in the late afternoon and evening

Most top administrators were keenly aware that the recruitment function was vital to maintaining their position in the college marketplace. A number voiced the fear that the pressure to generate prospects and applicants and to matriculate students would well lead to unethical recruitment practices. Such practices might include:

- admitting unqualified applicants
- enrolling poorly qualified students without adequate remedial programs
- admitting suspended students without qualifications
- guaranteeing graduation to select students such as athletes
- misrepresentation of programs
- misrepresentation of facilities, costs, and job opportunities after graduation
- exploiting foreign students
- use of headhunters (hiring of non-professional outside agencies) to recruit

The overwhelming majority of the institutions visited have expanded and are continuing to expand their admissions function to meet the perceived stresses in the market place. Retention of current students has received new attention in response to the need to maintain enrollment size and to be sensitive to consumer-oriented issues. Responses to stress in the marketing area can be categorized as "more and better" – more staff, more communication, better programs, and better planning.

Financial Stresses and Responses

The three primary *causes* of financial stress at the site visit institutions were legacies from the period of growth, the spiraling costs of inflation, and the costs associated with socially imposed programs and government mandates.

Procedures and attitudes developed during the 1960's and early 1970's period of growth became dysfunctional in the mid-1970's when retrenchment and cutbacks were needed. The early budget process assumed growth. Errors in one year's budget were corrected by enrollment growth in the next. Administrators and faculties were reluctant to examine operations and to establish priorities among programs. This "mental outlook" proved disastrous to effective college administration when other stresses began to appear in addition to that of soaring inflation.

There is little need to belabor the impact of inflation. Between 1966-67 and 1979-80 the price index for the "market basket" of current goods and services purchased by higher education rose from 100 to 255 as measured by D. Kent Halstead of the National Institute of Education. This is slightly higher than the Producer Price Index (formerly called the Wholesale Price Index) of the U.S. Bureau of Labor Statistics. The Producer Price Index rose from 100 to 249 over the same period. Even though higher education has not suffered significantly more than other industries from inflation, the costs for these goods and services from outside vendors have increased more rapidly than have the specific funds available for them. Business officers reported that, in areas other than direct instructional costs, there was very little flexibility left to accommodate further reductions. The fat has been trimmed to the bone and, in some cases, beyond.

In the instructional area, the most commonly heard problem was the inflationary impact on supplies needed for instruction in the sciences. The costs of chemical supplies, such as silver nitrate, have skyrocketed. Biology students have had to triple up on specimens. It was not uncommon to hear of faculty members purchasing supplies with their personal funds.

Few of the persons interviewed complained about the objectives of most socially imposed activities. They did, however, criticize the large number of new programs being imposed in a short period of time, and they expressed concern about the institution's ability to assimilate all of them. They also criticized the government for clumsy administration, lack of understanding of the academic community, arbitrariness, tacklessness, redundancy, and inefficiency. The costs of these programs were also of great concern, both the costs for actual program operations and the costs associated with compliance for information. Most administrators stated that estimates of these program costs and government mandates were difficult to calculate not only because necessary data were unavailable but also because the categories were so elastic. Specific categories mentioned included: payroll taxes and other fringe benefits; cost of collective bargaining, minimum wage and overtime legislation; expenditures for equal opportunity, affirmative action, and other programs for minorities and women; shared costs in government grants and contracts; costs of general compliance, statistical reports, and other paperwork; and costs for mandatory changes in buildings required by new building codes, fire marshall directives, the Occupational Health and Safety Administration (OSHA), section 504 (accessiblity for the handicapped), and new needs for security precautions. A few administrators openly admitted that some part of these costs have been financed by retrenchment of programs, impairment of educational quality, and reduction in operating efficiency.

To answer these stresses and to balance their budgets, most institutions focused on controlling costs internally through short-run economies. The most common strategies were holding down faculty salaries, deferring maintenance of buildings and equipment, and postponing needed equipment purchases. Austerity programs entailing budget cuts in the areas of supplies, travel, and library books and leaving vacant positions empty were also common occurrences. Three institutions sold land and other assets to meet their obligations. One drilled for gas on its land.

Administrators are beginning to question the appropriateness of "across-the-board" reductions, which had been quite prevalent as an early response. Selective reductions emphasing program considerations are receiving wider recognition.

Fund raising and grantsmanship are two major activities begun or greatly enhanced at institutions in financial difficulty. Most presidents now consider these areas as central to accomplishing the mission of the college. In many instances a new director of development had recently been hired and the development staff upgraded. Proposals to secure Title III funds had been written at almost all qualifying institutions.

Coordinating and governing bodies establish the context in which public institutions are able to respond to stress. The procedures of these bodies were not examined in any detail. For one reason, many of the factors causing stress were beyond the control of these organizations. But impressions gained during the interviews seemed to point to the fact that successful responses to financial stress were tailored to an institution's individual circumstances. Coordinating or governing bodies which impose blanket rules for responding to stress may be causing more harm than good.

Approaches to coping with financial stress varied according to the situation. For institutions in serious crisis, the goals were few. Enrollments had to be stabilized, expenditures reduced, cash flow improved, and credit restored. Those institutions not in crisis (and with reserves) used more sophisticated approaches to management. Long-range plans were produced. Reviews were undertaken in curriculum, teaching, advising, and student activities. Development activities, such as a capital campaign or a program of deferred giving, were either under review or under way.

Academic Stresses and Responses

Problems originating in the finance and marketing areas have caused the major stresses in the academic program area. Variable enrollments; inflation and limited resources; and responding to the special needs of part-time students, adults, minorities, and remedial students have caused the greatest disruptions and innovations in academic programs offered at the institutions visited.

Informed critics and observers of higher education have stressed the centrality of the educational program with respect to institutional appeal and

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vitality. The educational program was tailored to the distinctive mission and goals of the institutions. But many institutions that have encountered the era of scarce resources have begun to tailor their role and scope to the demands of the market place. An extreme example of this was encountered during the site visits.

In 1976, the trustees of a small liberal arts college analyzed their position and accepted the terminal prognosis: the institution was almost bankrupt. Although the college was run by a Catholic order of priests, the trustees realized they needed more than dedication and a belief in the liberal arts approach to education in order to survive. After extensive study, planning, and review, the trustees decided not to close the doors but instead chose to merge with a newly founded graduate medical school for osteopathic physicians. The two schools formed a university. The undergraduate college has begun to offer more and more courses and degrees associated with medicine and health management. In a year a new College of Allied Health opens. It will include programs of career preparation for physical therapists, occupational therapists, and medical records technicians. A core of general liberal arts studies still exists in spite of the new emphasis on careers in health. Enrollment has doubled.

At the institutions that experienced marketing stress, a key response from the academic area was heightened attention to changing student interests and the changing job market. Undergraduate business colleges had added liberal arts minors to the curriculum. Liberal arts colleges had added courses in business, accounting, and computer sciences. Review of existing as well as new programs has become progressively more important.

Other responses to enrollment fall-offs include:

- increasing the size of classes and laboratory sections and designating sections with less than a specified minimum enrollment for elimination,
- offering more elective courses in alternate years,
- eliminating academic programs that have too few students to justify continuation,
- participating in a consortium to allow courses to be taken elsewhere, and
- allowing creation of a new course only by dropping an old one.

In an effort to cope with inflationary pressures, many programs are using less expensive materials, less equipment, and fewer supplies for laboratory experiments. Needed equipment purchases have been postponed, resulting in the continued use of technology one and two generations removed from the current state of the art. Class field trips have been curtailed and in some cases eliminated because of the high cost of transportation. With respect to the impact of inflation on the quality of instructional programs, only a few administrators said that the quality of their offerings has been impaired. The typical response was that quality has been maintained through imaginative new approaches and the cutting of nonessentials but that the limit has been reached. Quality of instruction will deteriorate in the near future if additional resources are not found.

The Physical Capital Issue

The physical capital problems at the site visit institutions warrant separate discussion. The deferral of both plant maintenance and equipment purchases is a typical response to financial stress; balancing the budget takes priority over capital investment. However, the backlog of deferred maintenance and the inadequacy of instructional equipment are now *sources* of stress at many of these institutions.

Several years of deferring maintenance and replacements have led to deteriorating plant and obsolete technology. These occurrences, which were observed during the site visits, point to the worsening financial condition of many institutions, a condition not readily apparent upon examination of their financial statements. One public university has a priority list of deferred maintenance projects that will cost $1,000,000, and a community college had to drop a promising computer program from its curriculum because it lacked accumulated reserves necessary to replace obsolete equipment. These examples may appear to be dramatic extremes, but they typify conditions at many of the site visit institutions.

At first deferring maintenance of buildings and equipment was a viable management technique for achieving short-run economies and a balanced budget. But experience has shown that after a certain point a level of deterioration occurs that is irreversible, and then the much more costly prospect of replacement is necessary. Most business officers interviewed have begun to understand this process. They are struggling to identify new revenue sources to pay for these repairs, replacements, and renovations. A few have made capital renewal a top institutional priority by developing a program that incorporates capital renewal into the annual budget cycle. However, most administrators continue to be frustrated with the physical capital problems on their campuses.

FOOTNOTES

[1] Forty-one institutions were actually visited. The first four were preliminary and for the purpose of developing the interview format.

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CHAPTER 19

NCHEMS National Paper Competitions

Both of these award-winning papers have been reproduced in full in *Higher Education Planning and Budgeting: Ideas for the 80s,* published by the National Center for Higher Education Management Systems. The brief excerpts below indicate the thrust of these studies.

Practitioners' Award Paper

Before the Roof Caves In: A Predictive Model for Physical Plant Renewal

Frederick M. Biedenweg and Robert E. Hutson

As part of the planning and budgeting process, administrators at Stanford University identified the need for a program which would accurately identify the future capital requirements necessary for renewal and replacement of physical plant. The need for such a program was accentuated by the previously outlined fact that over 75 percent of Stanford's existing physical plant had been constructed since 1955. As this large group of facilities is now entering its first major (and expensive) stage of deterioration, the need for funding of renewal and replacement is becoming increasingly apparent. It has also raised extreme concern as to the total magnitude of liabilities in coming years.

To address this need, a framework was established within which the problems could be resolved. The basis of this framework is that there exist actuarially predictable cycles for facility renewal and replacement, e.g., the components or subsystems of a facility, such as plumbing, roofs, electrical, heating, ventilation, air conditioning systems, installed equipment, etc., have identifiable life expectancies and will require replacement after predictable periods of time. These cycles will continue to repeat themselves for as long as the facility continues to serve its intended functions. Of extreme importance to the planning and budgeting administrator is the magnitude (constant dollars)

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Dr. Robert E. Hutson, Operations and Maintenance, Stanford University.

of these replacement requirements and at what time in the future they will occur.

The development of this conceptual framework was accomplished by a special task force. The members were drawn from various departments within the University, each representing a department which had a concern and interest in maintenance of the physical plant. This approach proved to be extremely beneficial because it brought together the financial, planning, and facilities departments and their respective viewpoints and expertise. An additional benefit derived from the task force approach was that it fostered a widespread understanding and acceptance of the results produced.

Researchers' Award Paper

Strategic Planning in the Small, Private, Liberal Arts College

Raymond L. Siren

The liberal arts colleges tend to see themselves as quite different from profit-oriented industry (where planning models are concerned).

Therefore, the questions examined by this research were

1. Are the concepts of industrial strategic planning also applicable to small college planning?
2. Does application of these concepts require a formal, highly organized, continuously functioning planning system?
3. Under what circumstances are college planners most apt to practice comprehensive or synoptic planning, and under what circumstances are they apt to deviate towards incomplete or non-synoptic processes?
4. What is the nature of these deviations?

In order to find answers for these questions, it was decided to examine in detail the planning procedures and processes employed by a sample of selected, small, private, liberal arts colleges. For this purpose, the case-description-and-

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Dr. Raymond L. Siren, Assistant Professor of Economics and Business, Washington and Jefferson College.

analysis method was chosen. Two types of cases were used: cases developed by field investigation and cases available in literature.

Three case descriptions were developed. In addition, nine other usable cases were found in the literature.

The twelve institutions examined were Clark University, Washington and Jefferson, Juniata, Waynesburg, Villa Maria, St. Benedict, Spring Arbor, Hartwick, Lewis and Clark, Hood, Hope, and Hiram Colleges.

Publications of the Center for the Study of Higher Education
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1. Monographs
   - *Institutional Efficiency in State Systems of Public Higher Education*, by Fred Harcleroad.
   - *The Regional State Colleges and Universities in the Middle 1970s*, by Fred Harcleroad, C. Theodore Molen, Jr., Suzanne Van Ort.
   - *Changing Patterns of Governance in Higher Education*, by John Corson, Marvin Johnson, T. Harry McKinney, John Millet, Allan Ostar.
   - *Council of Universities and Colleges: An Introductory History*, by Doris Meek, Don Morgan.
   - *The Impact of Federal Policies on Higher Education Institutions*, edited by A.T. Grant.
   - *The State Legislative Process and Higher Education*, edited by A.T. Grant.
   - *Financing Postsecondary Education in the 1980s*, edited by Fred Harcleroad.
   - *Financing and Budgeting Postsecondary Education in the 1980s*, edited by Larry Leslie and Heather Otto.
   - *Higher Education Financing Policies: States/Institutions and Their Interaction*, edited by Larry L. Leslie and James Hyatt.

2. Topical Papers
   - No. 1 *Evaluating Higher Education*, by C. Robert Pace.
   - No. 2 *Values and American Higher Education*, by Earl McGrath.
   - No. 3 *Lifelong Learning: Higher Education's Response*, by Raymond Schultz.
   - No. 4 *Public Policy and Higher Education*, by John Corson.
   - No. 5 *Will There Be a Community College in the Year 2000?*, by Arthur Cohen.
   - No. 6 *Are Church-Related Colleges Losing Students?*, by Earl McGrath.
   - No. 7 *Careers, Values and General Education*, by Earl McGrath.
   - No. 8 *Higher Education Enrollments: Implications for the 1980s*, by Garland G. Parker.
   - No. 9 *Institutional Assessment and Evaluation for Accreditation*, by Joseph J. Semrow.
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